

2<sup>nd</sup> World Coffee Conference  
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## **BUILDING QUALITY AND SUSTAINABILITY FROM THE GROUND UP**

The recent price crisis was unprecedented in its severity, duration, and impact on coffee producing communities. While we as an industry are accustomed to price fluctuations, we were not and are not prepared to respond effectively to such a precipitous decline in prices, well below most producers' costs of production. Today, we are challenged to explore ways of avoiding a similar crisis in the future.

The Specialty Coffee Association of America (SCAA) believes that coffee quality remains the key to growing demand in the marketplace as well as sustaining prices at the farm gate. While the SCAA has specific quality standards relating to the physical characteristics of coffee, the Association has also taken an expanded and more holistic view of quality that includes quality in the cup, quality of life, and quality of the environment. These three areas are inextricably linked, and hold the basis for solutions to stabilize our industry. Sustainable solutions must meet the needs of all players on the supply chain, particularly those at its extremities: coffee producers and consumers, who are the focus of this paper. Like most seedlings, coffee grows from the ground up. It is my belief that most sustainable solutions also grow from the ground up, for solutions are often most clearly seen by those closest to the challenges and opportunities: coffee producers at one end of the supply chain, and consumers at the other. This paper will provide a brief overview of coffee consumption trends in the U.S., an overview of conditions in coffee producing communities, and will conclude by offering recommendations for a more sustainable coffee industry.

In 2004, while coffee consumption in the United States remained flat overall, specialty coffees continued to gain market share at the expense of traditional commercial blends that often consist of lower quality coffees and triage. The growth of daily specialty coffee consumption outpaced the growth rate of any other beverage tracked in the National Coffee Association's 2004 National Coffee Drinking Trends report, other than water<sup>1</sup>. The proliferation of specialty coffee brands in supermarkets is continuing to win coveted shelf space once the domain of well-known commercial quality brands. Why?

The increase in specialty coffee consumption is being driven by two factors that have been indexed in the NCA's recent study: taste and changes in lifestyle. Today consumers do not drink coffee for nutrition or health benefits, but for the enjoyable taste experience that it offers. In simple terms, coffees that taste good, sell. When properly roasted, coffees that have been grown, harvested, and processed with care that meet SCAA standards for specialty coffee, generally have taste characteristics that are a pleasure to experience.

The consumer demand for great tasting coffee is largely responsible for the phenomenal growth of specialty coffee, and the number of specialty coffee retail outlets in the United States. In 1992, according to the SCAA, there were 2,250 specialty coffee retail locations in the United States. By the end of 2004, that number was close to 19,000. In 1992 Starbucks Coffee Company had 165 stores. Today there are over 9,000 Starbucks cafes worldwide operated by over 100,000 employees. The specialty coffee industry has grown in value from \$1.3 billion in 1992 to over \$9 billion today. Much of this dramatic growth has been accelerated by the growing popularity of espresso and espresso-based beverages. According to the NCA study, in 2004 espresso-based beverages were the *primary* driver of increased daily specialty coffee consumption. Why espresso? For many consumers, the espresso-based beverages available in the growing number of specialty coffee and mainstream retail outlets represent a shift toward enjoyable taste, *and* a change in lifestyle. Espresso-based beverages are rapidly moving from specialty to mainstream locations. In Europe, espressos and cappuccinos may be found in McDonalds restaurants. In the U.S., Dunkin' Donuts has introduced a successful espresso-based beverage program that is reaching and capturing the imagination and beverage sales of mainstream consumers, particularly new and young coffee consumers. Many young people are finding specialty coffee a good alternative to alcohol, and are migrating to specialty coffee cafes as a place to meet, instead of bars.

Another encouraging shift in focus, if not in lifestyle of the coffee consumer, is the increasing awareness of social and environmental issues related to coffee production. Over the past three years, major media outlets in the United States including TIME, Newsweek, Public Broadcasting System's *Frontline*, and many others have devoted significant coverage to organic and fair trade products, including coffee. Consumer understanding of these issues is now affecting coffee purchase decisions. Over forty percent of those who responded to the NCA's 2004 Coffee Drinking Trends report said that their purchase decision would be driven by Fair Trade designation.<sup>2</sup> This study also demonstrated that shade grown and organic designations are affecting consumer coffee purchase decisions.

The growing interest in Fair Trade, shade grown, and organic coffee, is part of a larger consumer trend demanding greater product authenticity and transparency in a variety of consumer products including coffee, sneakers, clothing, and food items. A growing segment of consumers want to know more about the products they are purchasing including where the product was made, who produced it, under what working conditions, and the environmental impact, if any. A number of coffee companies in the U.S. and Europe have taken steps to address this desire for more authenticity and transparency by endorsing certification and verification schemes that address some of these issues. Organic certification was the first broadly accepted certification adopted by coffee producers and roasters. This has been followed by a number of certification/verification schemes including Fair Trade, "Bird Friendly" (shade grown) coffee certification, Utz Kapeh, Rainforest Alliance, the Common Code for the Coffee Community, and Starbucks Coffee Company's CAFÉ (Coffee and Farmer Equity) program, among others. In varying ways and degrees, these initiatives all address some of the issues that threaten the sustainability of the coffee industry and our environment.

Are these certification/verification schemes destined to remain in only fringe or niche markets, or will they gain traction in mainstream markets? Proctor and Gamble and Kraft have recently introduced Rainforest Alliance Certified coffees that are available in supermarkets and are being distributed by foodservices, respectively. Millstone Coffee (a division of Proctor and Gamble) has introduced Fair Trade Certified coffees. McDonalds' cafes in Switzerland are serving Fair Trade coffee; Dunkin' Donuts new espresso program uses Fair Trade coffee; Starbucks is doubling their Fair Trade coffee purchases this year to meet growing demand in Costco outlets, among others; Green Mountain Coffee Roasters Fair Trade coffee line of over 50 varieties, is growing at over 40% per year, or three times faster than its conventional line due largely to acceptance in mainstream supermarkets; and Wal-Mart is now offering U.S. consumers Fair Trade coffee. There are many more examples that demonstrate that the certification niche is growing acceptance in the mainstream marketplace. Why? Primarily because these and other companies see that these certifications/verifications can help build a successful and sustainable business. At best these certifications/verifications will help accelerate the coffee industry's move toward a new sustainable future. At worst, they are helping to educate consumers about the socio-economic and environmental challenges faced by coffee farmers and their communities. These certification/verification schemes address the growing consumer interest in product authenticity and transparency, and provide a vital link that joins consumers with coffee producers, who reside at the other end of the coffee supply chain.

In my travels throughout much of Latin America, I have had the opportunity to spend considerable time in coffee growing communities. Listening to coffee producers and their families speak about their needs, their hopes, and their dreams, a few themes surface on a regular basis including economic security, educational opportunities for their children, access to health care, and nutrition. Economic security provides the fertile ground from which other priorities may grow and blossom.

From the perspective of a coffee producer economic security often consists of two key elements: the ability to receive a consistently fair price for his or her coffee, and an opportunity to diversify the family's income so that it is not totally dependent upon the successful harvest and sale of coffee for survival. The recent crisis highlighted the vulnerability of these two fundamentals of economic security in coffee communities. The World Bank and Oxfam estimated that the crisis, caused by commodity prices plummeting below costs of production, deprived coffee farmers of any semblance of economic security, and drove over 600,000 of them in Latin America from their coffee, their families and their communities to seek alternative economic opportunities in urban centers or in the U.S. The price that these farmers received for their coffee was too low to survive, and unfortunately for most, there were no economic alternatives to coffee production in their own communities. The effects of this migration, which put many families and communities at risk and under extreme stress, continue today. Recovering from the impact of this exodus will take many years.

In reviewing the various certification/verification schemes, it appears that currently only organic and Fair Trade certifications are consistently contributing to the economic security of significant numbers of coffee producers and their families, *and* are demonstrating increased acceptance and value by consumers. Certified organic coffees, which are typically grown in a shaded environment in the absence of potentially harmful synthetic chemicals, command a

market premium that compensates coffee farmers for the additional labor that is often required for organic production. Fair Trade certification which is currently limited to small-scale coffee farmers who belong to democratically organized cooperatives, has established a minimum floor price of \$1.26 per pound for conventionally grown coffee, and provides organic coffee with a floor price \$.15 higher, at \$1.41 per pound. Fair Trade enabled many small-scale farmers and their cooperatives to weather the recent crisis. While many Fair Trade cooperatives have only been able to sell between 20 to 30 percent of their production under Fair Trade terms, the resulting Fair Trade premium above market prices, made the critical difference for many farmers and their families during the recent crisis. The relatively low percent of production sold under Fair Trade terms has been due to the growth of the number of cooperatives listed on the Fair Trade registry, and the relatively slower growth in market pull that has required significant resources to educate consumers.

The transparency demanded by consumers is an integral part of both organic and Fair Trade certifications, and interestingly, there is a high correlation between Fair Trade and organic imports. In the U.S., TransFair USA reports that in 2003, 86% of the Fair Trade certified coffee imported into the U.S. was also certified organic.<sup>3</sup> In addition to providing producers with a premium and consumers with sought after added value, the environment is also benefiting, as Fair Trade certification includes sustainable production criteria, and organic certification has very specific production requirements that result in a benign environmental impact. Perhaps best of all, Fair Trade farmers in the midst of the crisis, were able to continue to invest in the quality of their coffee and in the quality of life in their communities. In 2002-2003, global Fair Trade coffee exports increased from 15,779 metric tons to 19,895 metric tons, a growth of 26 percent.<sup>4</sup> In the U.S., during the same period of time, TransFair USA reported an increase in U.S. Fair Trade imports from 9,747,571 pounds to 18,663,806, a growth of 86% percent.<sup>5</sup>

Fair Trade and other certification schemes that transparently and directly offer added value to producers, consumers, and the environment are only part of a sustainable solution for the coffee industry. Economic diversification within coffee growing communities is also critical. When the topic of diversity is discussed as a remedy to potential market downturns, it is often discussed as diversifying from one monocrop to another, grown for exportation to northern markets. Recommendations are made to shift coffee producers in some growing areas away from coffee to these export crops. Unfortunately, under such diversification schemes producers eventually suffer the same symptoms they experienced with coffee, stemming from the same disease: low prices due to overproduction and/or decreasing market demand.

We are challenged to help provide producers and their families who grow quality coffee with economic security during market downturns. This *can* happen through diversification, not by *replacing* coffee with another export crop, but by *supplementing* income from coffee with income derived from other economic activities that are developed for the local market. This additional income strengthens the family economy, which in turn strengthens the local communities. Strengthening local communities strengthens regions, and strengthening regions, strengthens countries. Sustainable diversification must start small, and grow from the ground up. It must be based on the needs, hopes, dreams, and choices of coffee growing families, not of others.

One tool that has been used to achieve profound results in successfully diversifying local markets is micro-credit. Organizations like the Grameen Bank, Accion International, and others have helped hundreds of thousands of families around the world develop their own small businesses that have provided them with a high level of economic security. This concept has been successfully promoted and developed in a number of coffee growing communities in Mexico, Guatemala, Nicaragua, and Costa Rica by Coffee Kids, a small international organization based in Santa Fe, New Mexico.

Coffee Kids works through in-country partner organizations, which start their work by listening closely to the needs and aspirations of people in the local communities. In the state of Veracruz, Mexico Coffee Kids works with an organization called AUGE (Desarrollo Autogestionario, or Self-Managed Development), which has developed a successful model called GMAS (Grupos de Mujeres en Ahorros en Solidario – Groups of Women Saving in Solidarity). The groups of women, often about 25 wives and daughters of coffee growers, meet and usually choose to use the GMAS micro-credit model to help them establish their own individual small businesses that are not related to coffee.

The GMAS model first encourages women to save. Once they demonstrate their ability to save, even a few pesos a week, they are provided with a small loan to start their own small business. Most raise chickens, pigs, flowers, potatoes, or other products that they sell at the local market that have no relation to coffee. The women save and pay interest on their loan. Part of the interest goes into a group savings fund, which grows and gains interest in a local commercial bank. Usually after a few years, the women have repaid their initial loan, and the group fund has grown large enough that women in the group can borrow against it, and pay interest to the fund. In relatively short order, these women, who had never saved and who would rarely be eligible for a commercial loan, have together become their own savings and loan organization. In the process they provide their families with an additional source of income to supplement income from coffee provided by their husbands and fathers. This income is strengthening their families and the economy in their local communities.

In 1995, AUGE started working with 100 women, utilizing the GMAS model. Today, in the communities around Jalapa, Teocelo, and Huatusco, Veracruz, Mexico there are 3,500 women, all from coffee growing families, who together have *saved* over \$600,000.<sup>6</sup> Coffee Kids is no longer providing any capital to this project for micro-credit, for it is a self-sustaining and growing project. On August 28, 2005 Coffee Kids and AUGE inaugurated a new training center, complete with classrooms and dormitory facilities to grow this concept, beyond current similar projects in Oaxaca, Mexico, Guatemala, Nicaragua, and Costa Rica. Participating organizations and groups in each of these areas have worked together and have focused their energies to meet their own needs. In some areas, the women have focused on supporting healthcare, in other areas education. During the crisis, the additional income generated primarily by the wives and daughters of coffee growers enabled fathers and sons to remain with their families in their communities. Also during the crisis, men started their own savings groups. Perhaps most hopeful of all, today children and teenagers are starting their own groups and are learning the power of savings at an early age.

The GMAS savings model has been successful because it starts with the needs, the hopes, and the dreams of its participants, not with well-meaning programs designed and coordinated outside the area or the country. The participants in the programs supported by Coffee Kids know better than anyone the challenges the opportunities they face.

In conclusion, I reiterate that sustainable solutions to the coffee crisis must take into account the specific factors that meet the needs of both coffee producers and coffee consumers. It is clear that the consuming end of the supply chain is rewarding producers who can meet the high quality standards demanded by the rapidly growing specialty coffee industry. Coffee producers and coffee roasters who provide coffee with these standards, and who also participate in certification/verification schemes that emphasize authenticity and transparency, are succeeding in the marketplace. Yet, as we have learned the hard way, reliance on a single crop for survival is not healthy for coffee farmers, their families, our industry, or our planet. The need for sustainable diversification that strengthens communities, regions, and nations, must grow from the ground up. To provide our industry with a sustainable future, we must listen to the voices of the families, communities, and consumers that make our industry possible.

Footnotes:

<sup>1</sup> National Coffee Association of USA, Inc., 2004. National Coffee Drinking Trends 2004

<sup>2</sup> National Coffee Association of USA, Inc., 2004. National Coffee Drinking Trends 2004

<sup>3</sup>TransFair USA, August 23, 2005.

<sup>4</sup> Fair Trade Labelling Organizations International, 2004. Annual Report 03/04

<sup>5</sup> TransFair USA, August 23, 2005

<sup>6</sup> Fishbein, Bill. Founder, Coffee Kids, 2005.