



## **BACKGROUND: Fair Trade Certified™ Coffee**

### **Introduction**

Coffee is a beloved, even addictive, beverage—a popular choice for bringing people together on social occasions. But besides fueling conversation between friends and coworkers, in the morning or after a meal, coffee connects the millions of Americans who drink it daily to the millions of growers around the world who depend on it for their livelihoods.

Today, coffee is a big business—\$5 billion per year, of which about 40% falls under the banner of specialty coffee. This market segment came alive in the 1990s as gourmet roasters capitalized on the American appetite for coffeehouse culture and superior brews. Specialty coffee is often regarded as the last hope for small-scale growers. Faced with a worldwide price decline, coffee farmers who fail to reach the specialty market — and get a fair price in the process—often cannot cover their costs of production, meaning dire sacrifices for their families and communities. Fair Trade Certified™ coffee, the fastest-growing segment of the specialty coffee market — at 90% in 2003 — guarantees a fair price for farmers.

### **Where Does Coffee Come From?**

Coffee is indigenous to Ethiopia, where its beans were first consumed during the second half of the first millennium AD. Indeed, the “bean” associated with coffee is a misnomer — coffee beans are really the two seeds of a cherry-like fruit that grows on a tropical bush. By traditional methods, these fruit are picked by hand when they turn bright red, and are then pulped, dried, roasted, sorted, exported, ground, and finally brewed. The most predominant species are Arabica (often grown at higher altitudes) and Robusta (considered lower in quality and commonly found in lowlands).

It takes three to four years for a single coffee tree to bear ripe cherries. This multi-year cycle and the plant’s perennial nature make it difficult for coffee farmers to react immediately to changes in world coffee prices. As a result, coffee supply will often continue to rise even as market prices plummet.

For as long as there has been international trade, coffee has been an important commodity. From its birthplace in Ethiopia, coffee spread to the Middle East, where, by the 1500s, it was favored in the Ottoman Empire as a social drink, especially since Islam forbade the consumption of alcohol. European travelers eventually brought the beverage home, where it became a cultural force. Cafés opened in Italy, England, France, Holland, and Germany starting in the 1600s. Europeans then spread coffee cultivation to their colonies in Asia and the Americas.

Today, coffee continues to be produced in tropical regions around the world, with the largest exporters being Brazil, Vietnam, Colombia, Indonesia, and Mexico. After aggressive promotion by its government, Vietnam ascended in 2000 to second place among the world’s largest coffee producers, driving a worldwide oversupply and resulting price drop. Fair Trade Certified coffee reflects the diversity of available coffee origins—it is sourced from 25 countries throughout Latin America, Asia, and Africa.

### **Why Does Fair Trade Certification for Coffee Matter?**

Precisely because coffee is such a widely traded commodity, it has a great impact on industry, consumers, and coffee-growing regions, which include some of the poorest countries on earth. Many of the countries where coffee is grown depend heavily on the crop for their export earnings. In Ethiopia and Burundi, coffee accounts for the majority of their export revenue; in Honduras, the figure is close to 25%.

As an example of the pitfalls of global trade, the coffee crisis is particularly devastating. Coffee prices on the world market slid to an all-time low in 2002 of 45 cents per pound—well below the costs of production—and led to escalating unemployment, landlessness, and hunger among small-scale farmers and coffee pickers throughout the coffee-growing world. To make matters worse, most small-scale farmers, who are not organized in marketing cooperatives, must sell to local middlemen, capturing a mere 2%-4% of the retail price of coffee. Low prices, lack of credit, and isolation from the processing, export, and marketing of their beans trap farmers in a cycle of poverty and debt even when coffee prices are on the rise.

Over 150 million Americans consider themselves coffee drinkers. As the world's largest importer of coffee, the U.S. holds tremendous potential for the Fair Trade market, which is still relatively new in this country and growing at lightning speed. Fair Trade coffee has been sold in Europe for over 16 years, with retail sales topping \$300 million in 2000. This highlights the potential for Fair Trade Certified coffee growth in the US.

### **How Does Fair Trade Certification Help Farmers?**

Fair Trade certification is not a handout. It helps farmers understand and access international markets and bootstrap their way out of poverty. By cutting out middlemen and brokers, Fair Trade gets growers their fair share of the final market value of their products.

#### **The principal Fair Trade criteria for coffee are:**

1. Guaranteed floor price or income<sup>1</sup> paid directly to the producer;
2. Fair labor conditions for all people working on the farms;
3. Freedom of association for farmers and workers, and democratic decision-making processes;
4. Environmental standards that restrict use of agrochemicals and foster sustainability;
5. For cooperatives, pre-harvest lines of credit.

At these co-ops, income from Fair Trade funds schools and basic medical care for families. It provides opportunities for economic independence and community involvement for women. Cooperatives enable farmers to achieve economies of scale, and they invest a portion of their Fair Trade earnings in community development, coffee quality improvements, and training in organic farming techniques.

### **How Does Fair Trade Help the Environment?**

Fair Trade farmers protect the land and wildlife habitat by intercropping plant species and maintaining strict waste management control. Fair Trade farmers abide by rigorous environmental standards that prohibit use of the most harmful chemical pesticides and encourage integrated pest management. Fair Trade supports the small farmers' tradition of environmental stewardship by generating resources for co-ops to provide technical assistance, training, and organic certification to their members.

The higher Fair Trade minimum price for organic coffee (\$1.41 per pound) provides a strong financial incentive to capture opportunities in the organic market and commit to certified organic production. Fair Trade organic, shade-grown coffee is the gold standard of sustainable agriculture, reflecting farmer and industry compliance with much higher standards of social and environmental responsibility than those of other labels. More than 85% of Fair Trade coffee sold in the U.S. is certified organic.

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<sup>1</sup> Floor price or premium based on costs of living and production.

## **How Is Fair Trade Certification Good for Business?**

Consumer demand for socially responsible goods, including Fair Trade Certified products, is rising. An all-time high of 81% of Americans say they are likely to switch brands to help support a cause, when price and quality are equal.<sup>2</sup> In a similar vein, the market research journal *Lifestyles of Health and Sustainability (LOHAS)* has shown that 63 million American adults now base their purchasing decisions on how the products they consume affect the world.<sup>3</sup> Businesses—whether large or small—that incorporate a recognized code of social responsibility gain the advantage of promoting a positive image to consumers.

Fair Trade is an investment in quality. Fair Trade ensures that farmers can earn enough for their crops to continue producing quality and sustaining their farms. Direct relationships with producers strengthen businesses across the board and help maintain long-term access to the high quality that industry standards demand. These relationships are even more critical in times of crisis for growers.

## **About TransFair USA and Fair Trade Certification**

TransFair USA, a 501 (c) 3 nonprofit, is the sole Fair Trade certification organization in the U.S. Its rigorous audit system, which tracks products from farm to market, verifies industry and farmer compliance with Fair Trade criteria. TransFair authorizes companies to display the Fair Trade Certified label on products that meet this high standard. TransFair USA is part of a global certification network with a 16-year history of success in over 60 countries. In addition to coffee, TransFair also certifies Fair Trade tea, cocoa, chocolate and bananas. To learn more, visit [www.transfairusa.org](http://www.transfairusa.org).

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<sup>2</sup> Cone/Roper 2002

<sup>3</sup> LOHAS, 2003