

# TRENDS IN THE TRADE OF CERTIFIED COFFEES



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## Abstract for trade information services

ID=41934

2011

SITC-071 TRE

International Trade Centre (ITC)

### **Trends in the Trade of Certified Coffees.**

Geneva: ITC, 2011. vi, 17 pages (Technical paper)

Doc. No. MAR-11-197.E

Provides an overview of global market trends for the sustainable segment of the coffee industry – highlights the importance of certification in traditional and emerging markets; outlines the main sustainability certification and verification schemes such as Fairtrade, FLO, Organic, Utz Certified, Rainforest Alliance, and 4C, and provides volumes of traded coffee for each; considers the impact of these standards on coffee producers and the industry; includes bibliographical references.

Descriptors: **Coffee, Standards, Organic, Fairtrade, Utz Certified, Rainforest Alliance, 4C.**

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English, French, Spanish (separate editions)

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## **Acknowledgements**

This study was prepared by Joost Pierrot, Daniele Giovannucci and Alexander Kasterine.

It has benefited from the comments of Anders Aeroe, Acting Deputy Executive Director, Morten Scholer, Senior Adviser and Oliver von Hagen, Associate Expert at ITC. Danielle Carpenter Sprungli coordinated the production, sub editing and formatting with Isabel Droste and Juliette Ovelacq.

## **Sustainability Market Assessments**

This is part of a series of Sustainability Market Assessments produced under the ITC's Trade, Climate Change and Environment Programme, financed by the Government of Denmark. The preparation of this report also received support from the State Secretariat for Economic Affairs (SECO).

The series aims to inform exporters, civic society and policymakers on trends in the growing market for sustainably produced goods and services.

## **Methodology**

The authors collected this data throughout 2010. Significant portions come from desk research and include internal and external reports of the initiatives themselves, though some of the reports are not publicly available. The work also utilized surveys and a number of key expert interviews, particularly in countries of origin. For Organics, sources for data are primarily a number of collaborators in the exporting countries that were contacted individually and secondary data, in some cases, came from various reports and some International Coffee Organization (ICO) export statistics, where these are reasonably complete.

Volumes shown are for each individual initiative and in most cases these numbers include coffees that are certified or verified by other initiatives as well. Taken in simple aggregate, the individual numbers would actually overstate the combined total volume of these certified coffees. Care must be taken when making global claims to ensure a reasonable accounting of the double and even multiple certifications applying to the same coffee.

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## Acronyms

COSA	Committee on Sustainability Assessment
EU	European Union
FiBL	Research Institute of Organic Agriculture
FLO	Fairtrade Labelling Organizations International
ICO	International Coffee Organization
IPM	Integrated Pest Management
ITC	International Trade Centre
SMBC	Smithsonian Migratory Bird Center
T4SD	Trade for Sustainable Development
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization
4C Association	The Common Code for the Coffee Community

## Executive Summary

In the last decade, consumer concerns over the environment and the socio-economic conditions facing farmers in the developing world have driven strong growth in sustainability oriented standards and labels. Retailers and manufacturers have promoted such cause-related marketing as a type of differentiation tool, a means to improve the sustainability of producers, and to fulfil corporate social responsibility objectives. Evidence about producer benefits is mixed. Coffee is the world's most widely traded agricultural commodity, exported by sixty countries and grown predominantly by smallholder farmers, many of them women.

This paper, based on desk research and interviews with industry experts, examines the growth in the sustainability coffee market. It examines the volumes traded and market share of the main sustainability labels, including: FairTrade, Organic, Rainforest Alliance, Utz Certified and the Common Code for the Coffee Community (4C Association).

The paper concludes that certified coffee is moving rapidly from a niche to the mainstream. It is a fast growing segment of the market, with strong interest from major corporations and non-governmental organizations alike. At current growth rates, certified coffees would grow from the current 8% market penetration level in 2009 to 20%-25% of the global coffee trade by 2015.

## Trends in demand

The mature markets of the European Union, Japan and the United States account for half of total global sales. Demand for conventional (i.e. non-certified) coffee is largely stagnant in these markets, whilst it is thriving in emerging markets. Certified coffee, however, is showing strong growth and higher retail prices, particularly in mature markets. This trend is also followed by other commodities, including tea, cocoa and cotton. A new industry of inspectors and technicians has emerged to service the sustainability segment of the market

In 2009, 8% of all green coffee exported had some form of certification of credible claim of sustainability. The Netherlands is the leader in market share with 40% of coffees now certified. In the United States, the world's largest single market, 16% of all raw coffee imports are certified, whilst, Denmark, Sweden and Norway have passed 10%. Market share in Germany is about 5%. Certified coffees have a higher market penetration in northern European markets than southern.

Certification labels differ in their market share by country and are not evenly distributed across markets. For example, Organic dominates in Germany and Italy, whilst Fairtrade is the market leader in the United Kingdom and France. Rainforest Alliance is a market leader in Japan; Utz Certified is dominant in the Netherlands.

Demand for certified coffees appears to be growing among consumers in urban areas of emerging economies like China, India, Mexico and Brazil.

## Fairtrade

Fairtrade coffee standards are set by the Fairtrade Labelling Organizations International (FLO). They guarantee a minimum price to producers and are produced exclusively by smallholder farmers.

In 2009, 1.5 million bags (60 kg) of FLO certified coffee were traded; 11% more than in 2008.

The United States is the largest Fairtrade import market, with 85% of its imports coming from Mexico and Central and South America. Peru is the world's largest exporter of Fairtrade coffee. Combined Fairtrade and Organic is the most popular double certification in the market, with 42% of all Fairtrade sales bearing Organic certification.



## Organic

Organic was the first sustainability standard to be established for agriculture. It is the only one to be regulated by law in many markets and as such lends an additional level of credibility to the standard.

In 2009, nearly 1.7 million bags of organically certified coffee were traded, a substantial increase - 335% - since 2001. Growth did, however, slow during this time, with only a moderate 4% increase from 2008 to 2009. The main exporters are Peru. Indonesia leads the Asian continent and Ethiopia is Africa's dominant source. The United States, Germany and Switzerland are the main consumer markets for Organic.

## Utz Certified

Utz, the newest of the major certifications, was established in 2003. It focuses on promoting better business practices as a way to achieve sustainability. It incorporates GLOBALG.A.P. and features a set of social and environmental criteria.

In 2009, 1.4 million bags of coffee were imported, an increase of 11% from 2008. Around 30% of all coffee consumed in the Netherlands is Utz Certified. In 2009, the largest exporters were Brazil (38%) and Viet Nam (22%).

## Rainforest Alliance

Rainforest Alliance standards are based on integrated pest management (IPM) and which allows some uses of agrochemicals. The standards promote biodiversity also make provision for protecting the welfare of workers.

In 2009, nearly 1.5 million bags of Rainforest Alliance certified coffee were imported, an increase of 41% from the previous year. Latin America supplies 69% of the world's Rainforest Alliance certified coffee. Europe imports 55%, followed by the United States (30%) and Japan (15%).

## Themes for discussion

The growth in the sustainability segment of the coffee market raises a number of important issues for consideration by the coffee industry and policymakers.

1. Can certified sustainability coffees flourish in emerging markets?
2. Can certification extend beyond low input farmers, i.e. 'the low hanging fruit', who are considered easier to certify, and reach more intensive farmers?
3. Given the proliferation of different standards, to what degree are they actually delivering on the promise of measurable environmental, social and economic benefits?
4. What is the relevance of certification in the context of climate change?
5. The need for greater information about and transparency surrounding sustainability standards.

## Introduction

This report presents an overview of the market trends for coffee certified as 'sustainable' over most of the past decade.

Coffee is the world's most important agricultural crop in terms of trade volumes; it is exported by 60 countries and is one of the few major commodities grown predominantly by smallholder farmers.<sup>1</sup>

Consumer concerns over poverty, social injustice and environmental destruction have driven a growing market for 'sustainability' brands and labels in the food and beverages market. Coffees that adhere to various combinations of social, environmental and economic standards, and that are independently certified<sup>2</sup> by an accredited third party, have been collectively termed 'sustainable coffees'.<sup>3</sup>

There are potential producer benefits from sustainability standards in so far as they can capture the value of preserving the environment and deliver fairer trading conditions. From the retailer and corporate perspective, the concept of sustainability has emerged as a form of cause-related marketing. Early research indicates that 60% of consumers in the United States said they have a more favourable opinion of companies that support social and environmental causes and 76% of consumers polled said that they would switch over to a particular brand or retailer that supports a good cause, especially if price and quality are the same.<sup>4</sup> Unfortunately, they often lack the necessary information or trust in the marketing message to make sound decisions.<sup>5</sup>

Whilst the sustainable coffee segment has grown fast in recent years, it has also grown unevenly. It is difficult to understand the trends and therefore difficult for producers, industry and even consumers to make rational choices. Data for these coffees has improved in recent years yet there is no consistent source of accurate information for them; most are not tracked in official government trade statistics. The summary figure in Section 7 offers a compilation of sales volumes for the different certifications from 2006 to 2009.

This study presents only the total volumes of traded coffee for each of the main sustainability standards. The actual production volumes are considerably higher than this.<sup>6</sup> In some cases, not all certified coffees meet buyer requirements and portions of the production (e.g., lowest quality) may be sold into other channels and not traded as a certified coffee although it was indeed certified or verified. Buyers may purchase sustainable coffees but not use all of them in certified products. Sometimes the same coffee is sold as one or another certification label though it may bear multiple labels.

The data presented in this study includes coffees that are certified by other schemes and it is difficult to present an aggregate figure that is completely accurate since the same coffees are increasingly certified to multiple standards. However, we are reasonably certain of the estimation that 8% of the global trade in green coffee was certified as sustainable in 2009.<sup>7</sup>

Although the sustainability standards are voluntary and not required by law, they are increasingly becoming *de facto* requirements for certain buyers. Like many agricultural commodities, coffee is being seriously affected by such concerns, now embodied in trade standards, for sustainability and quality.<sup>8</sup> The costs and benefits to producers of these standards are not yet clear.<sup>9</sup> It is clear however, that if these standards are to have a significant positive impact on producers and the industry, then they need to be better understood so they can be better managed.<sup>10</sup>

Apart from two private company standards that are active and important, namely those used by Starbucks<sup>11</sup> and Nespresso,<sup>12</sup> the major standards are publicly managed and much more widely used by roasters and retailers. These include: Fairtrade, Organic, Utz Certified, and Rainforest Alliance – and these are the ones primarily covered in this report. Another fast-growing sustainability initiative, the Common Code for the Coffee Community (4C Association), is verification-based (not certification) and is also covered in this report.<sup>13</sup>

## 1. Trends in demand

### 1.1. A bright spot in a stagnant market

A recent study<sup>14</sup> by the International Coffee Organization (ICO) examined the trends in overall demand (all coffees, not just 'sustainable') for seven of the world's major coffee consuming countries. The countries studied represent the more established and mature coffee markets and include the United States, Germany, Japan, Italy, France, Spain and Sweden, which together account for nearly 44% of total global demand. In contrast to the robust levels of growth in some of the newer emerging markets, the conventional coffee markets in these countries are not thriving.

Despite some modest overall growth, the per capita consumption in many of the traditional markets has been flat or trending downward since the beginning of the 2000s. Italy and Japan are exceptions. For most of these countries neither price changes nor promotions are making much of a difference. However, within these large markets there are segments of distinct growth. Differentiated coffees, including specialty and certified coffees, are attracting new consumers and fetching higher prices; they may be buoying an otherwise stagnant industry.

The trend set by the coffee industry towards sustainability certification has been followed in other commodity industries including tea, cocoa and cotton; the coffee sector has been the primary driver for the development of various types of certifications (and a verification system), the creation of hundreds of inspection agencies, and the training of many thousands of technicians who facilitate the adoption of new standards in other agricultural commodities.

### 1.2. Emerging from just a niche market

Certified coffee is no longer a small market niche. In 2009, more than 8% of all the green coffee exported worldwide had some form of certification or credible claim of sustainability.<sup>15</sup> The Netherlands is the leader in market share with almost 40% of its coffees now certified. The United States market is second with 16% of all coffee imports as certified. Certified coffees in Denmark, Sweden and Norway have passed 10% market share.<sup>16</sup> This is likely the case also in smaller markets such as Switzerland and Belgium. The market share in Germany is nearly 5%. Northern European markets from the United Kingdom across to the Nordic countries tend to have higher levels of awareness and demand for such coffees. Italy and France are both showing several percent shares while neighbouring countries such as Spain, Portugal and Greece have very low levels of penetration.

### 1.3. Emerging markets

Certified coffees are growing in other non-traditional markets as well. In the Republic of Korea, Australia and Singapore they are already highly visible in retail market outlets. The same is true, but only in the largest urban areas, for China, India, Mexico, Chile and Brazil. Japan, a major consuming country accounting for approximately 6% of total global coffee demand, has seen the market share of certified coffees grow faster than nearly any other segment.<sup>17</sup>

### 1.4. Different schemes differ in market share by country

Sustainability certification and verification schemes are not evenly distributed across consumer markets. Organic coffee is more important in Germany, Canada, Australia, Italy and the United States. Fairtrade is dominant in the United Kingdom and France (and now the United States).<sup>18</sup> Rainforest Alliance is a leader in Japan and also important in Western Europe. Utz Certified coffee is dominant in the Netherlands and holds a strong position in several northern European markets.

## 2. Fairtrade (FLO) certified coffee



Fairtrade coffee standards are set by the Fairtrade Labelling Organizations International (FLO).<sup>19</sup> FLO-Cert is a separate organization and the most important Fairtrade certification service globally, serving clients in more than 70 countries.

The coffees certified as Fairtrade are the only coffees guaranteed to provide a minimum price to producers when sold and are produced exclusively by organized smallholder farmers. The global sales of FLO certified coffee are shown disaggregated by region from 2004 to 2009 in table 1.

**Table 1: Total worldwide sales of FLO-certified coffee (60-kg bags)**

	Not comparable to new (green bean) data				New and comparable	
	2004	2005	2006	2007	2008	2009
Europe	279 400	352 065	429 915	521 065	767 300	855 717
North America	123 385	210 685	430 600	504 565	578 567	636 917
Australia/New Zealand	n.a.	1 650	4 765	7 500	18 500	26 567
Japan	915	2 165	2 450	3 685	5 833	6 533
Others						483
<b>Total</b>	<b>403 700</b>	<b>566 565</b>	<b>867 730</b>	<b>1 036 815</b>	<b>1 370 200</b>	<b>1 526 216</b>

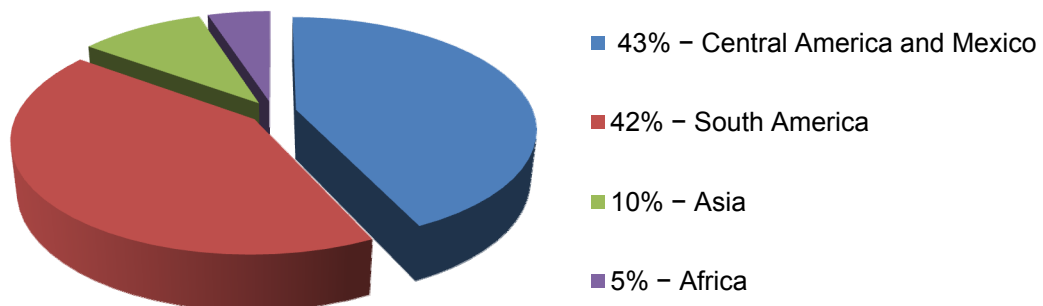
Source: FLO/Bonn and TransFair USA.

NB: Due to reporting differences, the data from 2008-2009 are green bean equivalent and comparable with other certifications. However, 2004-2007 are not. Calculations are based on FLO consumer country sales rather than coffee exported from origin (the latter is a slightly lower number in 2009 and higher in 2008) with average distribution being roasted (97%) and soluble coffees (3%).

Fairtrade is the only major certification system actively tracking dual certification or the amount of FLO certified coffee that is also certified as Organic. The combination of Fairtrade and Organic has been, by far, the most popular combined certification offered to the market. In 2009, 42% of all Fairtrade sales also bore the Organic certification, this is a decline from 2008 when 48% was Organic and 52% was conventional.

Worldwide sales of Fairtrade coffee increased in 2009 by just over 11%, compared with 2008. Major markets include the United States, the United Kingdom, Germany, France and the Netherlands. The United States is the largest single market with imports of 830,000 bags in 2009 and figure 1 indicates the origins of its imports.

**Figure 1: Origin of imports of Fairtrade coffee into the United States (2009)**



Source: TransFair USA.

Globally, Peru is the largest exporter of Fairtrade coffee, followed by Colombia, Mexico and Nicaragua. Indonesia leads Asian exports and Ethiopia and the United Republic of Tanzania are the most important origins from Africa.

### 3. Organic certified coffee

Organic<sup>20</sup> is the first sustainability certification in agriculture. It is also the only standard that has been codified into law in many countries. Using the word 'Organic' or its translations such as 'bio' is regulated by law in many major markets. For some, this weight of law conveys an additional level of credibility since the consequences for violation or misuse of the standard are clearly mandated.

**Figure 2: Official Organic seals in European Union, United States, Japan**



Organic coffee is the most important category of sustainable coffees, both in quantity and value. In this first decade of the century, global sales have increased by almost 250%.

Although it is the most widely available certification, growth in sales in recent years have begun to slow from their earlier levels.

In most markets, Organic growth still far outpaces the growth of comparable conventional coffees despite the higher price of Organics and the recent economic pressures during the recession (2008-2010). Organic premiums reflect some of the rigorous requirements and are the highest of any coffee. However, and perhaps surprisingly, the rates of new Organic certification for coffee started slowing at the close of 2010. According to some reports, a major reason is that substantial portions of the price premiums paid for organic certification are not reaching producers.<sup>21</sup> Profitable intensive farms have little incentive to convert. Also, using higher levels of agrochemicals, they face high risks in converting to organic production through potential falls in yield, adapting to new pest and disease management methods, building fertility, and finding new markets.<sup>22</sup>

Other standards have recently started growing at a faster rate, particularly with large mainstream roasters. Recent surveys in the United States point out that Organic coffee has the broadest awareness of any label by far, with over half of consumers recognizing this certification.<sup>23</sup> Other standards may be preferred by industry because most have less stringent requirements about agrochemicals, offer faster conversion times to qualify for certification, and offer a lower price premium for the producer.<sup>24</sup> Without further impact assessment research, it is not clear if this easier qualification reflects in different levels of benefits to producers.

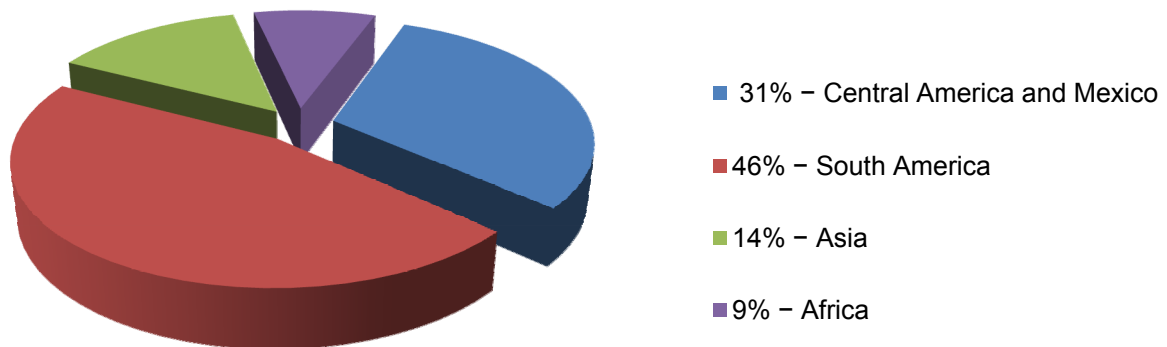
Table 2 offers estimates of the import volumes of certified Organic coffee, disaggregated by region, from 2004 to 2009. Organic is one of the most difficult certifications for which to collect reliable data. No government or customs agency effectively tracks Organic coffee imports, although Canada will begin doing so. Peru is one of the few countries publishing data for its Organic exports.<sup>25</sup> Even cash register data is incomplete. This is compounded by the many certifying agencies and slightly different standards for Organic coffee, most of which do not share data on volume or value or, worse, do not collect it. The only viable alternative therefore is to survey the significant Organic coffee importers or trade associations.<sup>26 27</sup> Import statistics for the North American market (United States and Canada) are very reliable, coming from surveys covering about 95% of the industry, and collected since 2000. For Europe and Japan, the first statistics on Organic coffee sales were collected systematically in 2003.<sup>28</sup>

**Table 2: Worldwide imports of certified Organic coffee (60-kg bags)**

	2001	2003	2005	2006	2007	2008 <sup>29</sup>	2009 <sup>30</sup>
Europe <sup>31</sup>	187 000	220 000				725 000	754 000
North America <sup>32</sup>	171 000		316 700	511 700	612 000	672 800	703 080
Others						154 400	160 575
Japan <sup>33</sup>			51 600	62 000	67 000	72 500	75 400
<b>Total<sup>34</sup></b>	<b>389 000</b>	<b>700 000</b>	<b>867 000</b>	<b>1 117 000</b>	<b>1 492 000</b>	<b>1 625 700</b>	<b>1 693 055</b>

Sources vary and are cited in endnotes. Except for North America, most are estimations based on incomplete data. Where totals are not published estimates, they assume average estimated growth rates for regional categories based on earlier/later growth where these are not specifically available.

Figure 3 shows the worldwide origins of certified Organic coffee supply in 2008. It is likely that the situation was similar in 2009.

**Figure 3: Worldwide supply of Organic coffee in 2008**

Source: The World of Organic Agriculture, FiBL/IFOAM 2010.

The main exporters of Organic are Peru where about 15% of all coffee is certified. In Latin America this is followed by Mexico and Honduras. Indonesia leads in Asia and Ethiopia is Africa's dominant source. Organic is the most important certification for African producers who supply nearly 10% of the global market.



It is worthwhile mentioning two subcategories in the Organic coffee segment. Bird Friendly certified by the Smithsonian Migratory Bird Center (SMBC)<sup>35</sup> and Demeter<sup>36</sup> certified coffee. These were among the earliest certifiers and are certainly among the most stringent in their requirements, one of which is to be fully Organic.



In 2008, about 1,800 bags of Bird Friendly, sometimes also called shade-grown, coffee were imported worldwide. 95% of this quantity originated in Central and South America with the remainder coming from Africa. In 2008, 61% was imported into North America and 36% into Japan with sales beginning to emerge in Canada and the Netherlands.

The 2009 worldwide exports of Demeter, or bio-dynamic, coffee are estimated at approximately 5,000 bags. The main consumer markets for this certification are Germany, Switzerland and the United States.

#### 4. Utz Certified coffee



Utz Certified<sup>37</sup> is the newest of the major certifications. Since its start in 2003, Utz has shown strong growth, especially in the European market. Utz was established to serve mainstream and larger clients that may have been reluctant to impose or adopt the requirements of the dominant standards in the first part of the decade. It focuses on promoting better business practices as an important component of achieving sustainability. Its standard fully incorporates the GLOBALG.A.P standard for coffee and features a set of social and environmental criteria for responsible coffee growing

practices and efficient farm management. Utz was the first standard, after Organic, to implement a system of full traceability and it has online monitoring.

Currently, around 30% of all coffee consumed in the Netherlands (its base) is Utz Certified and Utz also has a dominant position in the Nordic countries as well as Belgium and Switzerland. Utz aims to reach a worldwide sales volume of 1,666,000 bags in 2010. Table 3 indicates the recorded imports of Utz Certified coffee for different regions of the world.

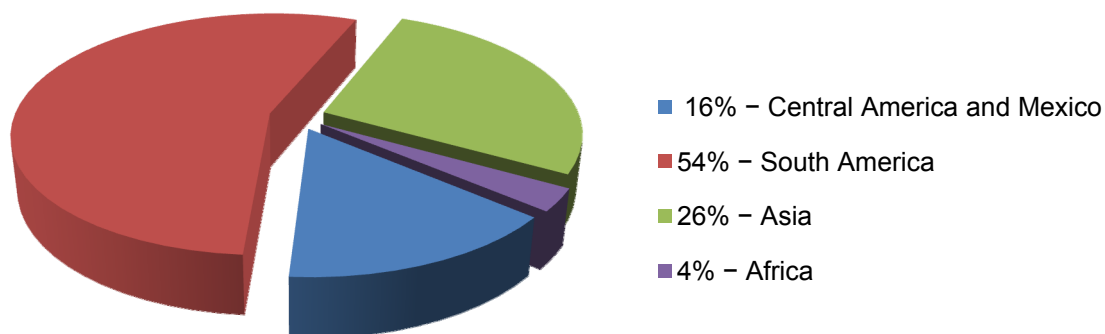
**Table 3: Worldwide imports of Utz Certified coffee (60-kg bags)**

	2005	2006	2007	2008	2009
Europe	437 650	505 800	676 135	1 027 985	1 155 000
North America	9 700	14 685	53 570	79 335	85 000
Japan	2 835	25 000	38 670	72 985	75 000
Rest of the world	28 815	54 515	73 625	110 695	115 000
<b>Total</b>	<b>479 000</b>	<b>600 000</b>	<b>842 000</b>	<b>1 291 000</b>	<b>1 430 000</b>

Source: Utz Certified.

In 2009, the largest volume of imports came from Brazil (38%), Viet Nam (22%), Colombia (12%) and Honduras (8%). Figure 4 offers a picture of the supply origins of Utz Certified coffee in 2009.

**Figure 4: Worldwide supply of Utz Certified coffee in 2009**



Source: Utz Certified.

## 5. Rainforest Alliance certified coffee



Rainforest Alliance<sup>38</sup> coffee certification is a standard set and managed jointly by the Rainforest Alliance and the Sustainable Agriculture Network, a group of Latin American partner organizations. A separate body, Sustainable Farm Certification, International, makes the certification decisions by evaluating the audits conducted by accredited inspection bodies. Rainforest Alliance standards are based on integrated pest management (IPM) that allows for some uses of synthetic agrochemicals and thus differs from the Organic certification in this regard. These standards also make provision for protecting the rights and welfare of workers and communities.

The quantity of Rainforest Alliance certified coffee has increased rapidly at 50% per year in recent years. Nespresso's commitment to certify 80% of its coffee with the Rainforest Alliance by 2013 will contribute to further growth as will its relationship with Nestle and the 4C Association standard. Table 4 shows seven years of Rainforest Alliance certified coffee imports into different regions of the world.

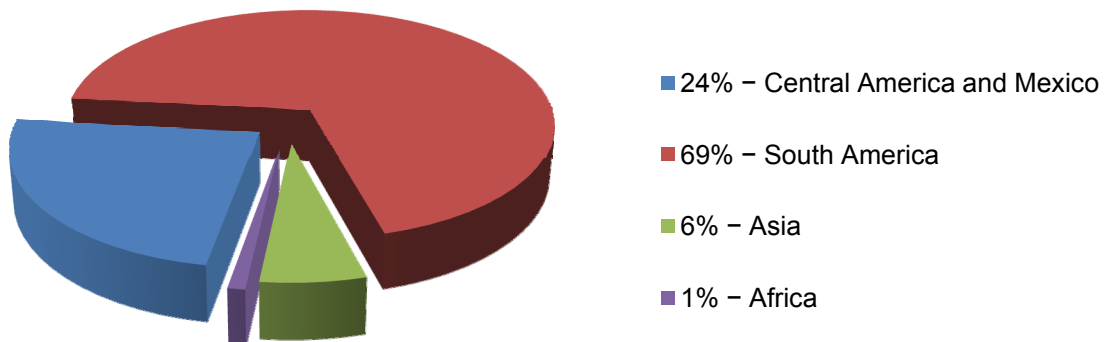
**Table 4: Worldwide imports of Rainforest Alliance certified coffee (60-kg bags)**

	2003	2004	2005	2006	2007	2008	2009
Europe	36 000	73 000	89 715	188 785	331 115	577 500	801 415
North America	15 000	40 000	95 035	193 850	265 115	335 900	432 035
Japan	2 000	10 000	25 000	69 900	95 335	124 850	226 265
<b>Total</b>	<b>53 000</b>	<b>123 000</b>	<b>209 750</b>	<b>452 535</b>	<b>691 565</b>	<b>1 038 250</b>	<b>1 459 715</b>

Source: Rainforest Alliance.

The worldwide supply of Rainforest Alliance Certified coffee comes primarily from Latin America though supplies are increasing from other regions. Figure 5 indicates the breakdown for 2009.

**Figure 5: Worldwide supply of Rainforest Alliance coffee in 2009**



Source: Rainforest Alliance.



## 6. Common Code for the Coffee Community



The Common Code for the Coffee Community (4C Association)<sup>39</sup> aims its work towards the mainstream part of the coffee industry. It provides the most basic standard of any of the initiatives covered in this report. It is designed as a business-to-business concept rather than the more consumer-orientated labels such as Organic, Fairtrade and Rainforest Alliance.

The 4C Association process may be more accessible for larger producers or producer groups (20 tons minimum) who may not be willing or able to meet the more demanding requirements of the other certified standards. It offers a verification procedure that does not employ the rigor or cost of a certification process.

The Association has total import figures from its members, but cannot give more detailed figures about regional distribution or about origins yet. Most of the verifications have occurred in Latin America and Viet Nam but are expanding in Africa and elsewhere.

**Table 5: Total worldwide imports of 4C verified coffee (60-kg bags)**

	2008	2009
<b>Total</b>	194 000	492 500

Source: Common Code for the Coffee Community.

## 7. Conclusions

### 7.1. From niche to mainstream

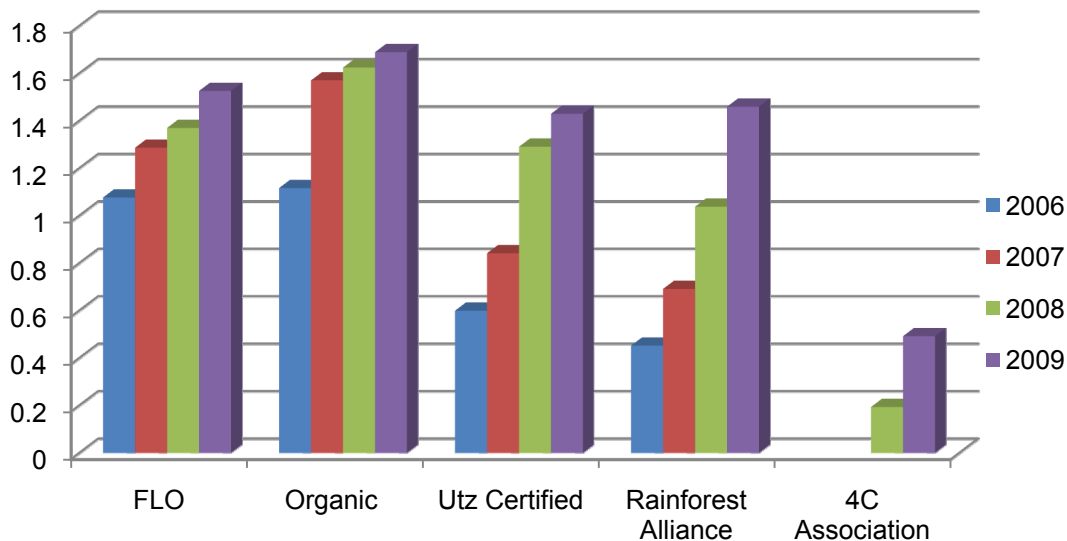
Certified coffee is no longer an inconsequential market niche. The sustainable coffee segment has been increasing by about 20%-25% each year (even excluding 4C verifications) compared to about 2% for conventional coffee. Major corporations are becoming increasingly interested in this segment and so it is likely that the sector's growth will continue. If recent rates of growth do indeed continue, then certified coffees might grow from the 2009 level of 8% to have a worldwide share of 20%-25% of global green coffee trade by 2015. In wealthier markets, i.e., the United States and Western Europe, some national market shares have already reached 10%-40%.

### 7.2. The economic role of sustainability standards in the coffee market

Despite some modest overall growth, the per capita consumption of coffee in many of the traditional markets has been flat or trending downward since the beginning of the 2000s. However, within these large markets there are segments of distinct growth dominated by various differentiated coffees, particularly those that are certified sustainable. It seems reasonable to conclude that they are buoying an otherwise stagnant business. They appear to also play two other important roles for the coffee industry overall: attracting new consumers and fetching higher prices that, to some extent, serve to 'decommoditize' coffee. Lack of clarity about their net impact on producers, or even the relative cost and benefit for producers, makes it difficult to ensure that there is adequate compensation in the supply chain.

### 7.3. Market shares vary

Each scheme differs in its strength of market share in different countries. Organic and Fairtrade have dominant market positions in most of the countries, but Utz and Rainforest Alliance, in relatively short periods, have become stronger in several markets, for example the Netherlands and Japan respectively, where business alliances have catapulted these two labels to prominence. Worldwide sales for each of the standards over the last four years are shown below in figure 6.

**Figure 6: Worldwide sales of certified or verified coffee by seal (million 60-kg bags)<sup>40</sup>**

**Source:** Based on the tables in the earlier chapters. NB: these estimates allow for comparison but do not correct for multiple certifications. The FLO figures for 2006-2007 are the authors' conversion to align them with the green bean figures for the other initiatives and thus differ from the processed coffee numbers in table 1.

## 8. Themes for discussion

This market progression toward a greater role for sustainability initiatives raises several important questions and concerns:

1. Can sustainability coffees flourish in the emerging markets that are now the source of most growth?
2. Can certifications meet growing demand as they extend beyond the current capacity of farmers who are considered easier to certify, i.e., 'the low hanging fruit'?
3. Given the proliferation of different standards (or certifications), to what degree are they delivering measurable environmental, social and economic benefits?
4. What is the relevance of certification in the context of climate change and its impacts on coffee production and marketing?
5. The value of greater information and transparency about sustainability.

### 8.1. Will there be demand in emerging markets for sustainability certifications

In contrast to traditional markets, demand for coffee in emerging markets, such as much of Asia and Russia, has been growing, albeit mostly in the categories of low-cost soluble coffees. Brazil's growth has been strong for years in nearly every coffee category and it is likely to soon become the world's top consumer country in terms of total volume.

Certified coffees too are growing in emerging markets like China, the Republic of Korea, Brazil and India, where they are increasingly visible in shops and cafes although their volumes are estimated to still be small. It is not clear to what extent consumer concerns about sustainability will translate into significant growth in these markets.

## 8.2. Can certifications reliably meet growing demand

If certifications have already reached their first primary targets or 'the low hanging fruit' – what are the challenges facing the sector in certifying increased supply?

If some of the more organized and more entrepreneurial smaller farmers have mostly been certified, how much will the costs and challenges escalate to reach toward more remote, less organized, less skilled and poorer farmers? This challenge is reflected even at the regional level. Small African producers may well have some of the greatest needs and yet the continent provides only a small proportion of the world's supply of certified coffees. Most of the certification bodies find it understandably difficult to operate there and have focused more on quickly developing supplies from producers that are often more capable and better financed, such as those in many parts of Latin America.

Fast growth in the future supply of sustainable coffee may have to increasingly come from larger farmers who currently operate intensive conventional systems. But here too they are likely to be constrained by the difficulty in converting their more intensive production systems toward more sustainable models where economic output is not the only measure of success.

If public and private support for such initiatives does not materialize, particularly for the poorer farmers, it could result in either consumers paying higher prices to stimulate supply or accepting less demanding certifications. In the latter case, this is likely to deliver lower levels of social and environmental benefits. This would risk a dilution of the sustainability message and undermine the overall credibility of sustainability certifications.

As a further consequence of the difficulty of certifying new supply, there is a trend toward multiple certifications. The existing (easier to certify) supply of certified coffee is increasingly subject to additional certification to another standard as it is easier to certify these than to certify farmers who have never before met the requirements of a similar standard. Many of the more difficult requirements, such as record keeping, traceability and good agricultural practices, are commonly shared among the different certifications. Producers who have multiple certifications face higher costs but are likely to improve their opportunities to access diverse markets and satisfy different buyers. However, this practice probably does not significantly improve the sustainability of the multiple-certified farmer and reduces the resources that could be directed toward farmers seeking first certifications.

As demands for sustainability increase, new farmers will need to seek certification for the first time in order to participate in these markets. Many will face a considerable barrier to entry. These farmers may be likely to have fewer skills and be more remote. How will they be trained? How will this be financed? Will their relative costs and benefits of being certified differ from those of the 'first-movers' who are already participating? As the supply base necessarily expands to include more producers, we will be learning new lessons in how to cost-effectively bring the benefits of these standards and certifications to a broader audience.

## 8.3. Understanding impacts

There are many different sustainability standards and this raises concerns about the extent to which they deliver economic, environmental and social benefits.

Are standards and certifications or verifications the best way to achieve sustainability? Transparency in the area of impacts ensures credibility, especially with consumers. It also permits standards bodies, producers and industry to implement the necessary adjustments to ensure that sustainability can indeed be achieved. It is therefore very important to demonstrate whether certification actually benefits farmers or whether the net outcome is more of a costly burden upon them.

As sustainability issues have become more popular, a number of noted researchers have looked into their impacts. Several authors have already made respected contributions but we are still far from understanding what works and what does not in this field.<sup>41</sup>

Although research is increasingly going beyond mere anecdotal evidence, much of it is limited in statistical relevance or lacks adequate control groups that could determine causality or attribution. In some cases,

the assessments made are one-time case studies or difficult to replicate and are not comparable with other studies or sectors or regions. This makes it difficult to draw broader lessons. So, while we can certainly learn from these, there is much more that we need to know.

#### **8.4. The threat of climate change**

As temperatures rise and rainfall patterns alter, there will likely be less land area for Arabica coffee production and crops are likely to be more affected by pests and disease.<sup>42</sup> A stable climate is a basic requirement for coffee production and the scope for adaptation is limited. Sustainability coffees are beginning to address mitigation of climate change through incorporation of carbon sequestration requirements, but adaptation is likely to pose a greater and more immediate challenge.

#### **8.5. Value of increased information and transparency**

In order to improve sustainable performance among producers, accelerate the efficiency of standards (certification) systems, and improve transparency, we need better information. A number of initiatives have recently embarked on upgrading their internal systems so they can better capture and report on the impact they have in the field. However, most also lack the capacity and the funding to do so adequately with statistical analysis and consistent attribution that takes into account the counterfactual situation (i.e. the situation on the ground without the certification). Several prominent efforts are addressing these needs:

1. The International Trade Centre (ITC) has established the Trade for Sustainable Development (T4SD) effort, a platform that features a Standards Map, a database with neutral comparative information on many standards and a body of relevant research papers.
2. The Committee on Sustainability Assessment (COSA)<sup>43</sup> is a non-profit consortium of institutions developing and applying a standardized measurement tool to analyze the distinct social, environmental and economic impacts of any agricultural practices, particularly those associated with the implementation of specific sustainability programmes. It works with partners in the countries of origin to conduct assessments using a developed set of indicators. COSA generates statistically significant data that is globally comparable across countries and sectors. The data from many thousands of surveys will be available as part of the ITC's T4SD web-based platform.
3. The ISEAL Alliance is a global association of social and environmental standards bodies including most of the major ones operating in coffee.<sup>44</sup> It works with standard systems to help them develop their own impact assessments and to help strengthen their effectiveness.

It is sustainability that is the goal and not the achievement of any particular standard or certification. As the industry evolves to better understand these issues, sustainability will become more of a mainstream goal. More actors will choose to conduct business in the form of relationships with partners knowing that it is by ensuring the ultimate success and sustainability of our partners that our own success is best ensured. In this way, the future of competitiveness in a world of finite resources will be defined by sustainability.



## Appendix List of International Trade Centre resources

For coffee in particular, [The Coffee Guide](#) offers basic information on climate change issues and environmental standards.

<http://www.intracen.org/thecoffeeguide/welcome.htm>

The Trade, Climate Change and Environment Programme is providing support to exporters of Organic coffee in developing countries and hosts [Organic Link](#), a platform for trade and information in Organic products.

The ITC's Market News Service offers bi-monthly market reports on Organics.

<http://www.intracen.org/dbms/organics/index.asp>

ITC's Standards Map, to be launched in February 2011, aims to increase the transparency of voluntary standards, particularly with respect to sustainable production and exports. It is a web-based interactive tool that allows users to review information on over 30 voluntary standards covering more than 40 product groups and references over 150 research papers. Users can review and compare standards and their requirements through user-friendly navigation and querying.

The Swiss Research Institute for Organic Agriculture (FiBL) in cooperation with ITC and IFOAM is preparing a global survey of organic production and trade, published in the World of Organic Agriculture.

<http://www.organic-world.net/survey.html>

*These activities and projects are made possible through the funding of the Governments of Denmark, Germany and Switzerland.*

## Endnotes

<sup>1</sup> Lewin, B., D. Giovannucci, P. Varangis. 2004. *Coffee Markets: New Paradigms in Global Supply and Demand*. World Bank: Washington DC. Available online: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=996111](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=996111).

<sup>2</sup> The Common Code for the Coffee Community is an exception and uses a 'verification' system instead of 'certification'. See section 6.

<sup>3</sup> [http://en.wikipedia.org/wiki/Sustainable\\_coffee](http://en.wikipedia.org/wiki/Sustainable_coffee).

<sup>4</sup> Berkowitz, Eric, Roger Caron, Steven Hartley, William Rudelius. 2000. *Marketing*. Boston: Irwin/McGraw-Hill: 110.

<sup>5</sup> Spear, Tibbett. *Growing the Green Market. American Demographics*. 8/1997: 45-49.

<sup>6</sup> Potts, J., J. van der Meer, J. Daitchman. 2010. *The State of Sustainability Initiatives: Review 2010* IISD: Winnipeg.

<sup>7</sup> Giovannucci, D. (2010) Online: [http://dev.ico.org/event\\_pdfs/wcc2010/presentations/wcc2010-giovannucci-e.pdf](http://dev.ico.org/event_pdfs/wcc2010/presentations/wcc2010-giovannucci-e.pdf) This 2009 estimate did not include 4C numbers.

<sup>8</sup> Giovannucci, D. and S. Ponte. 2005. "Standards as a new form of social contract? Sustainability initiatives in the coffee industry". *Food Policy* 30: 284-301.

<sup>9</sup> Blackman, Allen, Jorge Rivera. 2010. *Environmental certification and the Global Environment Facility*.

<sup>10</sup> Bacon, C. 2005. "Confronting the coffee crisis: Can fair trade, Organic and specialty coffee reduce small-scale farmer vulnerability in Northern Nicaragua?" *World Development*, Vol. 33, No. 3, Elsevier.

<sup>11</sup> Starbucks is the world's single largest seller of sustainable coffees.

<sup>12</sup> Nespresso, one of the fast growing brands of the global food giant, Nestle, expects to post sales of more than 3 billion Swiss francs in 2010.

<sup>13</sup> 4C verification differs from certification in that it is a check on the correctness of the self assessment completed by the farm or group and not an independent assessment.

<sup>14</sup> ICO (2010). *Coffee consumption in selected importing countries*.

<sup>15</sup> ICO World Coffee Conference/ Daniele Giovannucci (2010) Available online: [http://dev.ico.org/event\\_pdfs/wcc2010/presentations/wcc2010-giovannucci-e.pdf](http://dev.ico.org/event_pdfs/wcc2010/presentations/wcc2010-giovannucci-e.pdf).

<sup>16</sup> Danskaffenetvaerk.

<sup>17</sup> Average coffee consumption in Japan for the period 2000 to 2008 increased 0.7% per year, according to the 2010 ICO study: *Coffee consumption in selected importing countries*.

<sup>18</sup> The single largest sustainability certification in the United States is a private one: Starbucks C.A.F.E. Practices®.

<sup>19</sup> <http://www.fairtrade.net>.

<sup>20</sup> <http://www.ifoam.org>.

<sup>21</sup> Expert interviews – but data mostly anecdotal not empirical.

<sup>22</sup> The technology adoption literature is broad but little empirical work has analysed the reasons for adoption of sustainable agriculture: See inter alia, Cary, J. W. and R. L. Wilkinson (1997). "Perceived profitability and farmers' conservation behaviour". *Journal of Agricultural Economics* 48(1), 13-21. Midmore, P., Padel, S., McCalman, H., Isherwood, J., Fowler, S. & Lampkin, N. (2001) *Attitudes towards conversion to organic production systems: A study of farmers in England*. Institute of Rural Studies the University of Wales, Aberystwyth.

<sup>23</sup> NCA (2008) Report on Sustainable Coffee. NYC: National Coffee Association.

<sup>24</sup> It should be noted that some non-Organic standards have substantial environmental requirements. Some non-Organic standards have social requirements that are more demanding than those of some Organic certifiers.

<sup>25</sup> Available from [bio@promperu.gob.pe](mailto:bio@promperu.gob.pe).

<sup>26</sup> For example: or North America: Giovannucci D. (2010). *The North American Organic Coffee Industry Report*. SCAA: Long Beach, CA and for Europe: J. Pierrot. 2010. International Trade Centre. Geneva.

<sup>27</sup> A global survey of organic agriculture is published by FiBL/IFOAM/ITC containing production, export and import data: see <http://www.organic-world.net/survey.html>.

<sup>28</sup> Giovannucci, D., F.J. Koekoek. 2003. *The State of Sustainable Coffee*. ICO/IISD. Available online: <http://ssrn.com/abstract=996763>.

<sup>29</sup> Giovannucci, D., J. Pierrot, 2010. *The World of Organic Agriculture*. FiBL and IFOAM.

<sup>30</sup> With exception of North America (that is sourced from survey data) and Japan (from AJCA), Europe and Others are authors' estimates, based on conservative 4% growth.

<sup>31</sup> For 2001-2003: Giovannucci, D., F.J. Koekoek. 2003. *The State of Sustainable Coffee*. ICO/IISD.

<sup>32</sup> North American data from 2005-2009 from annual surveys published by D. Giovannucci. Most recently: North American Organic Coffee Industry Report 2010. SCAA. United States of America.

<sup>33</sup> All Japan Coffee Association statistics unpublished.

<sup>34</sup> Totals on 2003, 2005 and 2006 from: Giovannucci, D., P. Liu and A. Byers, (2008). "Adding Value: Certified Coffee Trade in North America". In Pascal Liu (Ed.) *Value-adding Standards in the North American Food Market - Trade Opportunities in Certified Products for Developing Countries*. FAO. Rome.

<sup>35</sup> <http://nationalzoo.si.edu/SCBI/migratorybirds/coffee/>.

<sup>36</sup> [www.demeter.net](http://www.demeter.net).

<sup>37</sup> [www.utzcertified.org](http://www.utzcertified.org).

<sup>38</sup> [www.rainforest-alliance.org](http://www.rainforest-alliance.org).

<sup>39</sup> [www.4c-coffeeassociation.org](http://www.4c-coffeeassociation.org).

<sup>40</sup> Global sales of Organic coffee in 2009 are estimated to have grown by 4%, compared to 2008. Sales of FLO in 2006 and 2007 are authors' estimates. 2009 sales of Organic coffee in the United States and Canada derived from: Giovannucci, D. (2010). *The North American Organic Coffee Industry Report*. SCAA; Long Beach, CA.

<sup>41</sup> In coffee, noted researchers have made valuable contributions with multiple studies. These include: Chris Bacon, Peter Baker, Allen Blackman, Benoit Daviron, Jeremy Haggard, Ivette Perfecto, Stefano Ponte, Laura Reynolds, Robert Rice, Ruerd Ruben, Geraldo Stachetti, Karla Utting, and Matt Warning.

<sup>42</sup> See *Climate Change and the Coffee Industry*, ITC, 2010 [www.intracen.org/organics](http://www.intracen.org/organics).

<sup>43</sup> [www.sustainablecommodities.org/cosa](http://www.sustainablecommodities.org/cosa).

<sup>44</sup> [www.isealalliance.org](http://www.isealalliance.org).





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