How Fair Trade USA Helps The Global Coffee Industry
The Basics of Coffee

Coffee is the world’s second most popular beverage (after tea), with over 2 billion cups consumed every day.

There are dozens of varieties of coffee, but only two dominate the global trade: Robusta and Arabica. Robusta grows at lower altitudes and has a much higher yield than Arabica, which has a sweeter taste and commands higher prices per pound.

Coffee grows on a large bush, with two fruiting seasons per year. Each bush produces hundreds of cherries, which usually contain two coffee beans. The cherries can be mechanically harvested if they are planted on relatively flat areas, in lines, and with no other plants or trees to get in the way (sometimes called “sun coffee”) – the cost of machines usually means that only large farms harvest this way. Coffee grown on slopes, or mixed in with other trees (“shade coffee”) must be harvested by hand, with farmers and workers returning to the bush a few times during the harvest seasons to pick ripe cherries.

Once the cherries are picked, there are many different ways to ferment and process them before separating out the bean, each of which imparts the coffee beans with a different flavor profile. The beans’ outer dry parchment is then removed by big machines in a ‘dry mill’, exposing the green coffee. This green coffee can be stored for a long time and is what is shipped around the world to then be roasted. Roasting usually happens near consuming markets so that the product is as fresh as possible.

Stay close to the roast!

There are dozens of ways that the quality of the coffee can be affected in the farming stage, from picking unripe or overripe cherries, to fermenting them too long or not enough, to not using fresh water to wash the beans. The plants themselves must be pruned and carefully monitored to maintain high yields and prevent pest outbreaks – which is becoming more difficult with climate change. In short, growing high quality coffee takes a lot of hard work!
Coffee in Crisis

It is estimated that 70% of the world's coffee comes from an estimated 20–25 million family farmers, who grow coffee on small farms ranging from 5–12 acres (that’s about 4–10 football fields).

Because each small farmer produces only a small amount of coffee, it usually isn’t worth it for them to own more than basic processing equipment, so the harvest of several farmers must be processed together. This means that tracing coffee to individual small farmers is practically impossible. Small farmers also usually lack the means to transport their coffee to the processor, leaving them at the mercy of local middlemen who come to their farm to buy their beans at whatever price the trader is offering.

Once it’s been milled, the product of these millions of coffee farmers is funneled through a relatively small number of traders on its way to roasters. Just five companies trade about a fourth of the world’s coffee. The roasting market has many more actors but is still concentrated, with 10 companies roasting a third of the world’s coffee. All of this market concentration means that the small coffee producers on one end of the supply chain have little power to negotiate and are vulnerable to the large buyers.

To make matters worse, coffee prices are extremely volatile and since 2011 have steadily fallen from a high of nearly $3 per pound for Arabica coffee in 2011 to dropping below $1 in early 2019. Low prices mean that farmers are abandoning their farms to seek better-paying work in the city, or even migrating to other countries.

Climate change is also hurting producers. The minimum altitude at which Arabica coffee can grow has been steadily climbing, and a fungus called ‘coffee leaf rust’ is decimating coffee crops. There is no doubt that the coffee producers are facing a crisis, and that the industry is in trouble.
Small farmers must organize into selling groups, normally cooperatives. This lets them eliminate middlemen, purchase milling equipment as a group, organize fairly-priced transportation, and negotiate better terms with buyers.

Buyers must pay a minimum price – set for conventional coffee at $1.40 per pound, or $1.70 for organic coffee, no matter how low the world price goes. The Fair Trade Minimum Price has been higher than the market price for coffee since August 2017. Since then, the average market price has been $1.11—that’s 29 cents below the conventional minimum price and 59 cents below the organic minimum price. While this may not seem like a lot to us, it could mean a difference of over $1,500 for a smallholder farming household that may only take in $4,500 annually.

Buyers also pay an extra premium of 20 cents per pound of coffee. These premiums go directly into a Community Development Fund where cooperative farmer members vote democratically on how to use these funds to address their pressing needs that are not being met by the local government or financial sector. At least a quarter of these funds must be spent on quality or productivity improvements, which should lead to higher incomes for farmers over the long term. For a cooperative that sells most of their coffee on fair trade terms, this could mean an additional $100,000+ to invest in services to communities, workers, or farmer members, and investments in the infrastructure of their organization.

Instead of waiting to pay until after the coffee is delivered, buyers must offer financing to cooperatives at the time of harvest, for up to 60% of the order. This pre-financing is crucial for cooperatives to be able to compete with middlemen buying coffee from small farmers, who offer lower prices but with immediate payment in cash. Farmers who desperately need money to pay for school uniforms or school supplies are tempted to accept the lower prices from middlemen—pre-financing frees them from having to make this sacrifice.
Do fair trade farmers earn more than non-fair trade farmers?

The higher fair trade prices are paid to the farmer group, usually a cooperative. The farmers vote on how the cooperative uses the extra funding. Sometimes the cooperative distributes higher payments directly to their farmer members, but sometimes it pools the money to invest in capital equipment or productivity services to members, which should ultimately also result in higher incomes to their members.

What’s the difference between direct trade and fair trade?

Direct trade is a concept that encourages roasters to develop more direct relationships with coffee producers but has no single or set definition. Like fair trade, direct trade coffee cuts out middlemen, ensuring that coffee and payments are traceable to a particular plantation or producer group. However, it includes no requirements regarding minimum pricing, premiums, or pre-financing to ensure that any additional prices they’re paying for high quality coffees are reaching the farmers. Coffee roasting companies can actually engage in both methods to form long-term relationships with the producers and pay higher than market price based on quality.

“Now we produce enough coffee to have a better quality of life. Thanks to the cooperative and Fair Trade USA, we are researching better techniques and protecting our environment.”

Grimaldina Guevara Calderón, Peru
The impact of fair trade

Since 1998, sales of Fair Trade Certified™ coffee has generated over $600 million in financial benefits to farmers, including $200 million in the form of Community Development Funds, which producers can use to serve their community’s unique needs*. For coffee lovers, fair trade is a simple way to support producer communities across the globe, shop their values, and vote with their dollar for a better world.

Shop Fair Trade Certified™ Coffee

“The Fair Trade Community Development Funds have helped with trainings to educate us on how we can better our lives through planting and selling of quality coffee.”

Elikanah Nyaga Mangure, Kenya

---

Sources:


Fair Trade USA, “Five Common Myths About Fair Trade Coffee.”

*As of October 2019