Coffee and Ethiopia

Coffee as a case study: Coffee is a very good example of the way in which global trade can make it difficult for farmers and workers in developing countries to earn a decent living, and how Fairtrade can help them. For both reasons we have made it our business to learn a lot about it, and in this we have been helped directly by the coffee farmers in Choche, Ethiopia, with whom we have a friendship link.

Origins: Coffee originated in Ethiopia. According to legend it was discovered over 1000 years ago by a young goatherd, named Kaldi, who noticed his herd getting very frisky after eating the red cherries off a wild bush in the forest. The place where that is supposed to have happened is, in fact, Choche!

The types of coffee: There are two types of commercial coffee: arabica and robusta. Arabica, grown at high tropical altitudes and producing the finest coffee, accounts for 60% to 70% of world production. All Ethiopia's coffee is arabica. Robusta, grown at lower altitudes, is much more bitter and acid, and accounts for the rest. Arabica is used in ground coffees and robusta in instant coffees (though blended with some arabica to make it drinkable). The global price of arabica is set on the New York Board of Trade (NYBOT) Coffee Exchange and the price of robusta on the London International Financial Futures and Options Exchange (LIFFE). In both markets a great deal of speculation takes place.

The size of the market: After oil, coffee is the second most traded commodity in the world. Today coffee exports are worth $20 billion and the value of the global retail market worth over $170 billion (2012 figure). In 2014, 52 of the 70 countries coffee growing were involved in its export.

Producers and consumers: Brazil is the world's largest producer of arabica and Vietnam the largest producer of robusta. Over 60% of all coffee is produced in just four countries: Brazil, Vietnam, Colombia and Indonesia. After these four Ethiopia is the next largest producer, accounting for just over 4% of the world market. USA is the biggest importer, followed by Germany and Italy. The Finns are the greatest consumers per capita. About 30% of all coffee is drunk in producing countries; the rest is exported.

The farmers and their farms: Most coffee is grown on very small farms, the rest on plantations. In Choche the average coffee farm size is about 1 hectare and in southern Ethiopia farms are much smaller than that. Worldwide, coffee provides a living for 25 million farmers and their families (in total that's between 120 and 150 million people). In Ethiopia 15 million people are either directly or indirectly dependent of coffee. Coffee growing is highly labour intensive. Because of the way the market works, most coffee farmers are poor, and in some years do not even cover their costs.

Coffee's importance to countries: For countries that produce it, coffee exports generate a significant proportion of national income and are a vital source of the foreign exchange earnings which governments rely on to improve health, education, infrastructure and other social services. For instance, Burundi relies on coffee for 60 per cent of its export earnings, Ethiopia a third, Honduras for a quarter, Nicaragua for nearly a fifth. So if world coffee prices are low then the economies of these countries are badly hit.

Coffee supply chains: These are often complex, with beans sometimes changing hands dozens of times on the journey from grower to consumer. These chains have long been dominated by a small number of very large and very profitable multinational trading and roasting companies. Just four companies – ECOM, Louis Dreyfus, Neumann and VOLCAFE – control around 40 per cent of global coffee trade.

The farmers' share of the market: While within the food and drink industry coffee is the most profitable of all beverages, it is a very different story for coffee farmers. The share of the retail value of coffee retained by the producer has fallen over the decades – in the 1970s, producers retained an average of 20 per cent of the retail price of coffee sold in a shop. When oversupply caused prices to crash to historic lows during the coffee crisis of 1994 – 2004, research found coffee growers received just 1-3 per cent of the price of a cup of coffee sold in a café in Europe or North America and 2-6 per cent of the value of coffee sold in a supermarket.

Price volatility: Farmers are also the worst affected by the notorious volatility of world coffee prices. In recent years the price of arabica coffee has swung from a 30-year low of 45 cents a pound in 2001 to a 34-year high of almost 309 cents in 2011. And then, between May 2011 and December 2013, prices fell by 65% as a result of the Euro crisis and oversupply of coffee.

The effects on farmers: This price volatility has significant consequences for those who depend on coffee for their livelihoods, making it difficult for farmers to predict their income for the coming season and budget for their household and farming needs. When prices are low farmers have neither the incentive nor resources to invest in good maintenance of their farms by applying fertilisers and pesticides or replacing old bushes. When prices fall below the costs of production, farmers struggle to feed their families and pay medical bills and school fees.

The International Coffee Agreement (ICA): From the 1960s until 1989, the global coffee market was kept in reasonable balance of supply and demand in part due to the 1962 International Coffee Agreement (ICA) and subsequent agreements, signed by governments of producing and consuming countries. The ICA regulated much of the global coffee trade through a system of export quotas and buffer stocks which largely maintained stable and remunerative prices to growers.

The collapse of the ICA: The economic clauses of the ICA were suspended in 1989 because of abuse of the quota system and their incompatibility with prevalent free market economic policies. Controversial IMF and World Bank structural adjustment programmes (SAP) required governments of producing countries to privatise state-controlled industries, such as the coffee sector and open them to competition from private traders, ostensibly to improve efficiency. As a consequence, world coffee prices immediately dropped by half to less than 80 cents a pound. At the height of the coffee crisis in 2001 / 2004 millions of coffee farmers around the world were made destitute, at the same time as the coffee industry made record profits. (It is estimated that the coffee industry as a whole made an *extra* $8 billion from the crisis.) In Ethiopia times were so bad that the Red Cross was forced to open feeding centres as they do in times of famine. We know farmers in Choche who were forced to sell the thatched rooves of their houses for cattle fodder to raise money to buy food.

Climate change: Growing coffee is further complicated by the impacts of climate change. These have caused disturbances to weather patterns and temperatures in producing countries increasing the risks faced by farmers depending on coffee sales. Rains fail, or are very erratic. Temperatures rise, allowing pathogens to survive cold seasons. Diseases, like leaf rust, increase. Farmers whom we know in Choche are experiencing all these problems.

The start of Fairtrade: Fairtrade was started in response to the dire struggles of Mexican coffee farmers following the collapse of world coffee prices in the late 1980s. The collapse of the International Coffee Agreement and subsequent price crash was a major factor in the launch of the first Fairtrade label, Max Havelaar, under the initiative of the Dutch development agency Solidaridad. The first 'Fairtrade' coffee from Mexico was sold into Dutch supermarkets in 1989. It was branded Max Havelaar, after a fictional Dutch character who opposed the exploitation of coffee pickers in Dutch colonies.

How Fairtrade works: Fairtrade was set up to ensure coffee farmers receive a fair and stable price for their coffee that covers their costs of production. Fairtrade certified cooperatives can count on at least the Fairtrade Minimum Price, currently $1.40 per pound for arabica coffee sold on Fairtrade terms (30 cents more if organic). In addition to this there is an extra 20 cents per pound Fairtrade Premium to invest as they see fit – 5 cents of which is dedicated to improving productivity and quality.

The benefits: These tools give farmers the stability and confidence to budget for next farming season and household expenses and drive development in their communities. For 15 of the last 25 years, when the global price for arabica coffee has often fallen well below the Fairtrade Minimum Price, it has ensured farmers can earn enough to cover at least the basic costs of sustainable production.

The global reach of Fairtrade: Fairtrade currently works with more than 730,000 farmers globally through 439 Fairtrade certified coffee producer organisations. Fairtrade coffee farmers cultivate coffee on more than 1 million hectares worldwide producing an estimated 470,000 tonnes of coffee of which 37% is also certified organic. The Fairtrade Premium provides valuable additional capital that allows farmer organisations to reinvest in improving infrastructure and in services to farmers, such as training in better farming practice. It also provides credit and financial services and helps to support cash payments to farmer members who are struggling with food security or other basic needs. In Choche the farmers' cooperative has built a new health post, a bridge, a kindergarten and a computer lab and extra classrooms at the high school. Fairtrade Standards are designed to deliver against all three pillars of sustainability – economic, social and environmental.

Looking to the future: In addition to the Fairtrade Minimum Price and Fairtrade Premium, Fairtrade provides essential training and support to farmer organisations to help them thrive. One of the main focus areas is to train farmers to adapt better to changing climate and weather conditions. Watch coffee farmers in Peru share the lessons with other farmers as they adapt to climate change. Keeping the next generation engaged in the coffee sector is one of the challenges facing the industry.