

## BACKGROUND

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## Organic Coffee Crisis?

by Eric Holt-Giménez, Ian Bailey and Devon Sampson

## Coffee Crisis—Take Two

“The Coffee Crisis” used to refer to the disastrous plunge in world coffee prices in the 1980s and 1990s that bankrupted hundreds of thousands of smallholders around the world. The USDA’s National Organic Program (NOP) is now poised to bring us the “Organic Coffee Crisis.” With a breathtaking disregard for transparency, consultation and public debate, the NOP is moving to make it prohibitively expensive and logistically impossible for small-scale organic coffee growers. When combined with Fairtrade coffee, certified organic coffee can now fetch up to \$1.51/lb. Though even this price may not completely cover many farmers’ production costs, the Fairtrade-Organic combination has saved many smallholders from total financial ruin.

Until now, official certifiers inspected smallholder “community grower groups” (usually a cooperative), to ensure compliance with organic standards. Inspectors typically tested 20% of the group’s farms to validate farmers’ compliance. This allowed some 300 grower groups in the Global South to obtain organic certification for over 100,000 farmers. This system is very similar to USDA organic food processing audits.

Last year, the USDA National Organic Program decertified a coffee cooperative in Mexico after an inspector discovered that the cooperative’s internal control system had failed to detect that one farmer had used pesticides and stored his coffee in used fertilizer bags. After an unsuccessful appeal filed by the Mexican cooperative, on October 27, 2006, not only did the USDA decertify that cooperative—based on a legal reading by USDA administrative law judges—USDA decided to abandon the grower group certification process altogether by unilaterally declaring that, “The use of an internal inspection system as a proxy for mandatory on-site inspections of each production unit by the certifying agent is not permitted.” (NOP Appeal Summaries, 10/2005–3/2007)<sup>1</sup>.

Now every farmer, no matter how small, must submit to yearly, on-site inspections. Certification inspection visits, often to remote coffee farms, can take three to five days at a cost of \$150–\$270 a day. There is little likelihood that individual smallholders—who produce the bulk of the world’s organic coffee—can pay this price, or that certifiers can reach all of them.

Organic certification already comes at a high cost for smallholders. Not only do farmers have to invest more labor in weeding, pruning, and organic fertilization, they must first sacrifice three years of farming organically without certification (or the premium) before qualifying. They must also organize in cooperatives under one management



Noemi Jimenez Herrera harvesting coffee for the Coopepueblos Direct Market Cooperative

Photo by Ian Bailey

and marketing system and maintain a strict, documented, internal control system to make sure all members in the grower group are complying with organic standards and production practices.

It is hard to imagine who benefits from this new USDA decision, aside from large-scale organic coffee farmers who can afford yearly inspections. It certainly doesn't benefit organic smallholders, who produce the bulk of organic coffee in the world, or consumers, who will see the price of organic coffee go through the roof. It doesn't benefit Fairtrade roaster-distributors who depend on the organic price to shore up the Fairtrade premium paid to many organic farmers. It doesn't even benefit the large retailers that carry organic coffee. How will Wal-Mart and Nestlé maintain their "halo" of fairness and greenness if the organic and Fairtrade coffee that the chains sell is replaced by high-priced coffee sold by a handful of big growers?

### Bull in the China Shop?

While this move could favor large coffee growers, it does not appear that they were behind this development. Likewise, though the Mexican cooperative's violation may have triggered the USDA's reaction, it is unlikely that this was their main motive. Rather, it may be that the USDA, burned by large-scale organic imports from China that were not organic, decided to tighten certification procedures.<sup>2</sup>

So, hard-strapped smallholder coffee co-ops that have spent nearly two decades trying to make the organic certification system work, are now the sacrificial lambs for the industrial organic industry. By sabotaging smallholder certification, the USDA risks destroying both the Organic and Fairtrade coffee markets in the U.S.

This USDA ruling comes at a time when large processors, retailers, and large-scale industrial farms are making inroads into the organic market that, according to the Organic Trade Association, is growing at 20% a year. The market for organic reflects the

*industrial restructuring of organic production itself*; a restructuring that favors large retailers, large processors, and large industrial farms.<sup>3</sup> For smallholders this is like inviting a bull into a china shop. Not only are they at a price disadvantage, they lack *power in negotiating* a fair price and in setting rules. The USDA typically loosens standards for agribusiness, but tightens them for smallholders, all in the "consumer interest."<sup>4</sup> As the looming Organic Coffee Crisis suggests, once the agri-foods industry takes over, there is no guarantee that smallholders who survive will reap the so-called benefits of mainstreaming.

### How did this come about?

Coffee has long stood for both privilege and poverty. Since the time of the colonial coffee booms of the mid 1800s, coffee has been one of the world's most valuable exports. Today coffee is second only to oil in gross value of world trade. Worldwide, 25 million people earn their livelihoods from coffee farming, supplying an estimated 500 billion cups of coffee to consumers each year.<sup>5</sup> However, the benefits of the coffee trade are not equitably distributed: the price paid for a cup of coffee in the U.S. exceeds half the daily income of many small-scale coffee farmers. Workers on large coffee plantations often earn less than \$2.00/day. Typical of the "resource curse" common to oil and gold-producing countries in the Global South, many coffee-producing countries are among the poorest. Ethiopia's quality *Sidamo* beans fetch up to \$25/lb at Starbucks. Yet, Ethiopia's 1.2 million smallholder coffee farmers earn less than \$2/day and the country's per-capita GDP is \$130—one-fifth the Sub-Saharan Africa average (World Bank, 2006).

Five multinational corporations—Kraft, Nestlé, Procter & Gamble, Sara Lee, and Tchibo—dominate the global coffee market (Daviron and Ponte 2005). Kraft and Nestlé control 49% of the roasting industry; while these top five corporations control 69% (*Ibid*). The value-added to coffee is concentrated at the consumption end of the producer-con-

sumer commodity chain. A handful of importers and roasters control over 78% of coffee revenues, compared to the millions of farmers on the production end of the chain who receive an ever-diminishing share of profits (Daviron and Ponte 2005; Fitter and Kaplinsky 2001). These corporations buy the bulk of green coffee beans and sell to consumers at a high markup. The coffee market is shaped like an hourglass in which five corporations regulate coffee transactions between millions of coffee farmers and millions of consumers. When farmers were earning record low prices for their coffee in the 1990s, these five corporations were still making huge profits. In an \$80 billion industry, farmers earn less than 10%. Fueled by speculation, prices paid to farmers rise and fall on the commodities exchange in London and New York, reaching as low as 41 cents per pound in 2001 and has only marginally recovered since (Talbot 2004; Bacon 2005). With minimal social protection, farmers, communities, and entire regions are exposed to the vagaries of the market, resulting in precarious livelihoods for small-scale coffee growers.

In 1962 coffee producing countries signed the first International Coffee Agreement (ICA), setting up an export-quota system to control the international coffee supply. In an attempt to control fluctuating prices, a series of ICA agreements and extensions helped producing countries stabilize coffee prices for over two and a half decades. However, the ICA system fell apart in 1989 under pressure to deregulate. Without supply management, the price of coffee fluctuates at the whim of global markets.

The collapse of coffee prices devastated the local economies of the world's coffee farmers. With prices that were far below the cost of production, the living conditions of peasant coffee farmers in Latin America, Africa, and Southeast Asia worsened. Many could not meet their basic nutritional needs. This sudden plunge

into extreme poverty became known as the “coffee crisis” (Gresser and Tickel 2002).

## Fairtrade-Organic

Organic and Fairtrade coffee certification stepped in to offer smallholders higher-prices. Third-party Fairtrade certifiers ensured that farmers’ cooperatives received a minimum price of \$1.26 per pound of coffee and verified that the cooperatives were run democratically with environmental standards. This price increased to \$1.41 if the coffee was also certified Organic. Retailers carrying Fairtrade coffee were supposed to advance 60% in production credit to coffee cooperatives. Certifiers—largely not-for-profit—receive a small percentage of all Fairtrade sales for their operating costs.

When international coffee prices bottomed out at \$.41 per pound, the combination of Organic and Fairtrade prices insulated participating farmers from the devastation experienced by those farmers without any price floor (Taylor et al 2005). Fairtrade-Organic certification has provided a price floor and relatively stable alternative market since the collapse of the International Coffee Agreement.

Cooperatives linked to farmers’ movements used Fairtrade-Organic certification to strengthen their social institutions and political power. Well-organized cooperatives used profits to build schools, health centers, and implement social projects. The Fairtrade-Organic combination helped many farmers survive the Coffee Crisis (Taylor et al 2005, Bacon et al 2007).

This encouraged certifiers to market through large retailers to get the Fairtrade price for more farmers. Fairtrade-Organic experienced rapid market expansion when Starbucks, ceding to the demands of a nationwide campaign launched by Global Exchange, began carrying Fairtrade in its U.S. stores. Fairtrade advocates and certifiers later persuaded large corporations and brands including Costco, Sam’s Club, Seattle’s Best (now owned by Starbucks), Dunkin’ Donuts, McDonalds, and even Nestlé to offer Fairtrade Certified coffee. “Mainstreaming” Fairtrade coffee through large retail outlets paid off with a dramatic expansion of the U.S. Fairtrade market that in 2000 saw \$50 million in sales. By 2005 it had ballooned to \$500 million. Over the last eight years,

## TAKE ACTION!

☒ Contact your congressional representative to demand that the USDA find a solution that doesn’t eliminate millions of small coffee farms just because they can’t afford to certify. The USDA’s National Organic Program should work with consumers, certifiers, cooperatives, farmer organizations, and IFOAM (International Federation of Organic Agriculture Movements) to find a system of certifying cooperatives that is both rigorous and accessible to smallholders. Until then, don’t make coffee farmers the scapegoat for organic’s credibility problems. The agriculture committee members can be found at <http://agriculture.house.gov/inside/members.html>

☒ Write to the subcommittee members on organic agriculture:

**DEMOCRATS:** Dennis A. Cardoza, CA (Chairman); Bob Etheridge, NC; Lincoln Davis, TN; Tim Mahoney, FL; John Barrow, GA; Kirsten E. Gillibrand, NY

**REPUBLICANS:** Randy Neugebauer, TX (Ranking Minority Member); John R. “Randy” Kuhl, Jr., NY; Virginia Foxx, NC; Kevin McCarthy, CA; K. Michael Conaway, TX

☒ Also, copy and contact the USDA directly:

Mark Bradley,  
Associate Deputy Administrator  
USDA-AMS-TMP-NOP  
Room 4008-South Building  
1400 Independence Avenue, SW  
Washington, DC 20250-0020  
Tel: (202) 720-3252 Fax: (202) 205-7808

☒ Contact one or two of the 100% Fairtrade-Organic roasters (see list at right) and certifiers like the Fairtrade Labeling Organization ([fairtrade.net](http://fairtrade.net)) and TransfairUSA ([transfairusa.org](http://transfairusa.org)), and ask them what they are doing to address the USDA ruling.

☒ Finally, contact Starbucks, Sam’s Club, Dunkin’ Donuts, Nestlé and the other large distributors of Fairtrade-Organic coffee and ask them how they are going to ensure that smallholders continue to be able to certify the organic coffee these retailers sell in their stores. This is a good chance for them to demonstrate that their commitment to fair and sustainable coffee production goes beyond the “halo effect” of carrying just a few pounds of certified coffee on their shelves.

**Global Exchange:** [www.globalexchange.org](http://www.globalexchange.org)

**Equal Exchange:** [www.equalexchange.com](http://www.equalexchange.com)

**Café Campesino:** [www.cafecampesino.com](http://www.cafecampesino.com)

**Cloudforest Initiatives:**  
[www.cloudforestmexico.org](http://www.cloudforestmexico.org)

**Peace Coffee:** [www.peacecoffee.com](http://www.peacecoffee.com)

**Dean’s Beans:** [www.deansbeans.com](http://www.deansbeans.com)

**Larry’s Beans:** [www.larrysbeans.com](http://www.larrysbeans.com)

**Higher Grounds Trading Co.**  
[www.javaforjustice.com](http://www.javaforjustice.com)

**Café Mam (Royal Blue Organics)**  
[www.cafemam.com](http://www.cafemam.com)

**American Joe:** [www.americanjoe.com](http://www.americanjoe.com)

**Just Coffee:** [www.justcoffee.net](http://www.justcoffee.net)

**Higher Ground Roasters:**  
[www.highergroundroasters.com](http://www.highergroundroasters.com)

**Fair Trade Coffee Co.** [www.fairtradecoffee.org](http://www.fairtradecoffee.org)

**Grounds for Change:**  
[www.groundsforchange.com](http://www.groundsforchange.com)

**Café Canopy:** [www.cafecanopy.com](http://www.cafecanopy.com)

**Pura Vida Coffee Company:**  
[www.puravidacoffee.com](http://www.puravidacoffee.com)

**Morning Glory Coffee and Tea:**  
[www.mgcoffee.com](http://www.mgcoffee.com)

**Alter Eco:** [www.altereco-usa.com](http://www.altereco-usa.com)

**Coffee-Tea-Etc.** [www.coffee-tea-etc.com](http://www.coffee-tea-etc.com)

**Thanksgiving Coffee:**  
[www.thanksgivingcoffee.com](http://www.thanksgivingcoffee.com)

**Community Agroecology Network (CAN):**  
[www.communityagroecology.net](http://www.communityagroecology.net)



*TransFair*, a non-profit Fairtrade certifier, estimates that cooperatives from 25 countries in Latin America, Asia, and Africa have earned an additional \$75 million from the Fairtrade premium. Eighty-five per cent of Fairtrade coffee is also certified Organic.

### USDA's Domino Effect

The Fairtrade-Organic price advantage has not kept up with inflation. Until last month, the Fairtrade premium was flat for 18 years, leading to demands by coffee growers that the Fairtrade Labeling Organization (FLO) raise the prices paid to coffee farmers. Fairtrade-Organic certification found itself between a rock and hard place; in the coffee market, the tendency is to concentrate the bulk of coffee's value with the corporate retailer. Certifier-retailers wanted to keep prices paid to Fairtrade-Organic farmers relatively low to promote expansion in the mainstream retail market. After some

foot-dragging, in April 2007 the FLO conceded modest increases on its social and organic premiums, bringing the price for Fairtrade-Organic coffee to \$1.51/lb.<sup>6</sup> The increase avoided a conflict between certifiers and producers—at least for the time being. A study by the Coordinating Body for Small Fairtrade Producers in Latin America and the Caribbean (CLAC) calculated the cost of producing Fairtrade Organic coffee to be between \$1.72-2.19 a pound. That is \$0.21-0.58 *higher* than the present Fairtrade-Organic price. Farmers stay alive by cutting environmental corners, working harder, off-farm income, and increasingly, the northern migration of selected family members (see Lewis and Runston, 2005).

The precariousness of the coffee market has meant that Fairtrade and Organic prices have needed to prop each other up just to keep smallholders

farming. By knocking down Organic certification for smallholders, the USDA could drive both Organic and Fairtrade farmers out of business. They may not continue growing coffee under these conditions and will likely switch to pasture, fuel crops, and/or migrate. If coffee farming is to protect the environment *and* serve as a motor for local rural development, it is in no one's interest to eliminate smallholders. The USDA needs to help, not hinder smallholder organic producers.

The USDA's ruling should also serve as a wake-up call. Unless mainstreaming strategies begin to address market power—and ultimately, decision-making—rather than solely increase volume, retail success could still bring farm failure for small-scale producers.

*This Backgrounder is based on the Food First Development Report #16 Fair to the Last Drop: The Corporate Challenges to Fairtrade Coffee, by Eric Holt-Giménez, Ian Bailey, and Devon Sampson. Footnotes at [www.foodfirst.org](http://www.foodfirst.org).*

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