

Coffee: Market Overview

Introduction

This paper gives an overview on the global coffee sector (e.g. prices, supply, demand) and its links to Fairtrade coffee (e.g. supply, availability). The objective is to get insights into what is affecting the global coffee market, to analyze trends and projections in coffee prices and consumption, and how all this links to Fairtrade coffee.

I. Global Coffee Market

In 2010, international market prices for Arabica coffee have passed the 2 USD per pound of green coffee (Figure 1).

Figure 1. International market prices for Arabica coffee (2006-2010) (USD cents per pound of green coffee, NY Coffee “C”). Source: Financial Times, 2010.



The increase in price has been particularly marked in the case of Colombian Milds. During the last few months, the differential between prices of Arabica and Robusta has widened significantly.

Production and supply

Supplies of Arabicas from South and Central America are facing both climatic and structural difficulties, particularly with the recurrence of the coffee berry borer in Colombia. Prediction for a return of Colombian production to its normal level following a poor performance in 2008/09 is again uncertain. The production level accounted around January 2010 was very low. The possibility of substitution by other origins seems equally limited. Colombian production in 2009 was 7.8 million bags bringing the cumulative total

for calendar year 2009 to 94.7 million bags compared to total exports of 97.7 million bags in 2008, a fall of 3%.

Indeed, the world supply situation appears to be somewhat tight, particularly in view of the low level of world stocks, a smaller than anticipated recovery in the production of some countries in Central America and Colombia, and adverse weather conditions in Brazil. The initial estimate for Brazil's 2010/11 crop released by CONAB, the government agency responsible for agricultural projections in Brazil, indicates a production of 47.3 million bags. Although this represents a significant increase in production, the crop is not expected to lead to a surplus of world supply since it will need to be absorbed over two coffee years since the 2011/12 crop will be lower due to the biennial cycle.

There has been a slight improvement in Colombian production but, on the basis of present indications, it is likely a substantial recovery can be expected only in 2010/11. Apart from the situation in South America, substantial falls were recorded in some African countries and in the Central America/Mexico region. Production in Vietnam also seems to have fallen in crop year 2009/10. In the case of crop year 2010/11, which has already begun in a number of countries, including Brazil, Indonesia, Papua New Guinea, Central American and Peru, the estimate of production is between 133 and 135 million bags. Brazilian production in this crop year will reflect a high output of Arabicas in accordance with their biennial cycle of alternating high and low production. Increased production is also expected in Colombia following two consecutive years of low production. Production in Asia could also record a slight increase, particularly in Vietnam and India (ICO, 2010).

The shortfall in coffee production in Colombia created a high competition within neighbouring countries. In the cases of Peru and Central American/Mexico coffees, local differentials increased as a result of the situation in Colombia and the cross boarder transport of products is a practice that many companies are using in order to get their coffees, so Peruvian's coffee are sold as Colombian, and Mexico as Guatemalan and so on. Roasters have increasingly used Robusta for blending in order to compensate for shortages in Arabica and/or reduce their costs.

Consumption

Global consumption of coffee has increased, particularly in exporting countries (Table 1).

Table 1. Global Coffee Consumption (2000-2009). Unit: million bags of 60 kg. Source: ICO, International Coffee Organization.

	2000	2009	Growth Rate
Global	105.2	132	2.60%
Traditional Markets	64.9	69.6	0.80%
Exporting countries	26.1	37.7	4.20%
Other Markets	14.3	24.8	6.30%

For the next 10 years (2010-2020), the International Coffee Organization (ICO) expects a growth of 2.4% in production, up to a total of 150 millions bags of 60 kilos. Regarding consumption, a 2% growth is expected, up to 163 millions bags of 60 kilos. Growth in consumption would mainly come from producing countries, especially Brazil, which is expected to become the first coffee consumer in the world.

Demand for mild coffees (Colombian, Central American and other milds) are expected to grow by 1.1% (4.6 million 60-kg bags), Naturals by 1.8% (7.4 million 60-kg bags), and Robusta by 3.3% (13.1 million 60-kg bags).

Economic recession

A majority of consumers in USA did not change its coffee consumption habits as a result of the economic crisis (NCA, 2009). Only 14% of American consumers indicated that their coffee consumption had changed. Of those consumers who changed their coffee consumption, 42% reported change both at home and out of home consumption, 34% indicated change only out of home. The remaining 25% indicated change only in home consumption. For those who indicated change in coffee consumption out of home the main change was a shift into less frequent consumption. Those who indicated change in coffee consumption at home moved into a cheaper brand of coffee (NCA, 2009).

Consequences of volatility and speculation

Most commodity markets are seasonal and supply is thus unstable. Unbalanced supply leads to unbalanced prices, which in turn attracts speculators. The successive increase in trading further increases price volatility (Market Technologies, 2010).

The price volatility caused by speculation has a negative effect on markets. In the long term, speculation should make commodity assets more liquid, thus reducing volatility by making them easier to trade or convert to cash at their true market price.

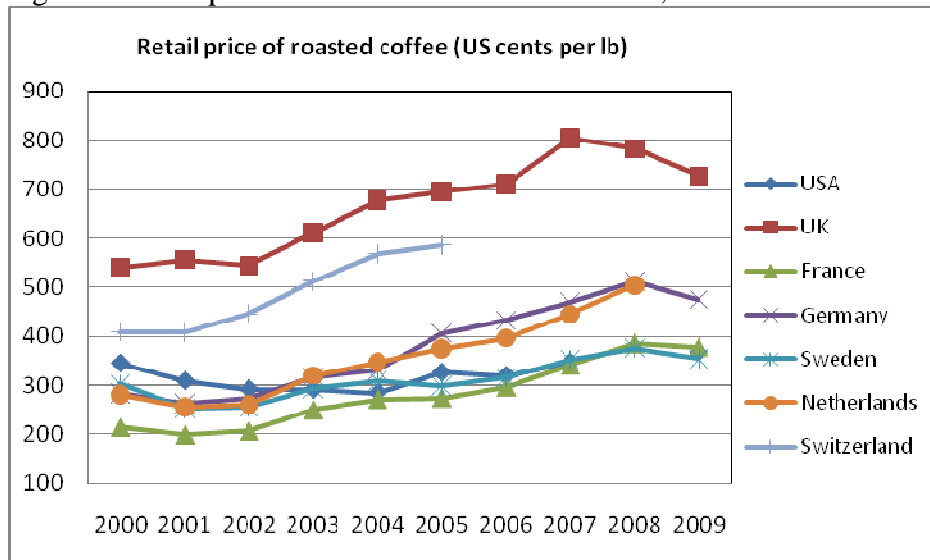
In many of today's commodity markets, the short-term cycle of volatility is stronger than the long-term cycle of liquidity. Examining the coffee market reveals some pointers as to why this should be the case:

- The market is already volatile because coffee harvests vary in yield. Low yields drive prices up, which in turn causes production to rise and prices then to come down again.
- The coffee commodity exchange has increased this volatility, and 80 percent of coffee bean trades are on paper only.
- The market is relatively small, making it particularly sensitive to speculation by a few investors.

Retail Prices

Until around 2007-2008, retail prices showed a tendency to increase (Figure 2).

Figure 2. Retail price of roasted coffee. Source: ICO, International Coffee Organization.



The current high prices in the international coffee market are leading several major brands and roasters (e.g. Folgers, Millstone, Starbucks) to increase retail prices. Plans to increase retail prices by 10-15% for some products have occurred in the American market (Farchy 2010, Raff 2010). Globally, the rising demand for coffee and the renewed strength of the out-of-home sector creates room for increasing end-consumer prices.

II. Fairtrade Coffee

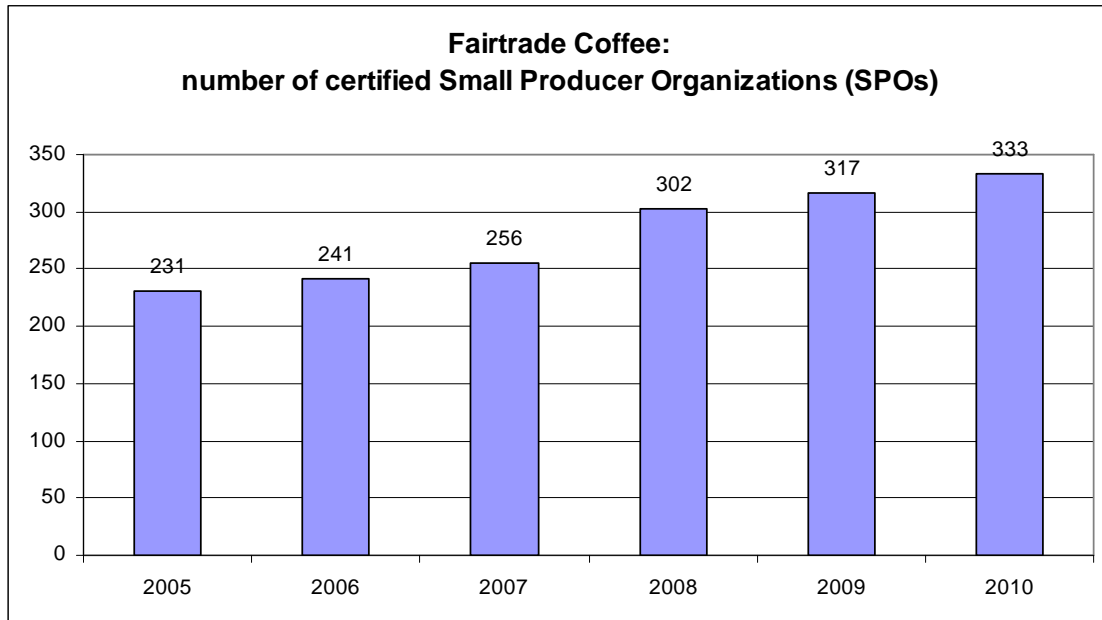
Volumes

Sales volumes of FT coffee in 2009 amounted to around 88000 MT (green coffee equivalent) in consuming countries (Figure 3).

Figure 3. Total Sales volumes of FT coffee (years 2004-2009) in consuming countries (roasted coffee regularly accounts for more than 95% of yearly sales volumes). Green Bean Equivalent equals the sales volumes multiplied by 1.19 conversion rate (ITC, 2010).

Currently there are around 330 FT coffee certified Small Producer Organizations (SPOs) (Figure 4).

Figure 4. Number of FT coffee certified Small Producer Organizations (SPOs).



Registered transactions of Fairtrade Minimum Price and Premium in 2009 indicate that Peru is the main source of FT coffee (Figure 5), and USA is the main destination (Figure 6). Arabica coffee accounts for 96% of registered volumes, while Robusta amounts to 4%.

Figure 5. Export Volumes of FT Arabica green coffee from producer countries (year 2009). Source: FLO-CERT, registered transactions of Fairtrade Minimum Price and Premium.

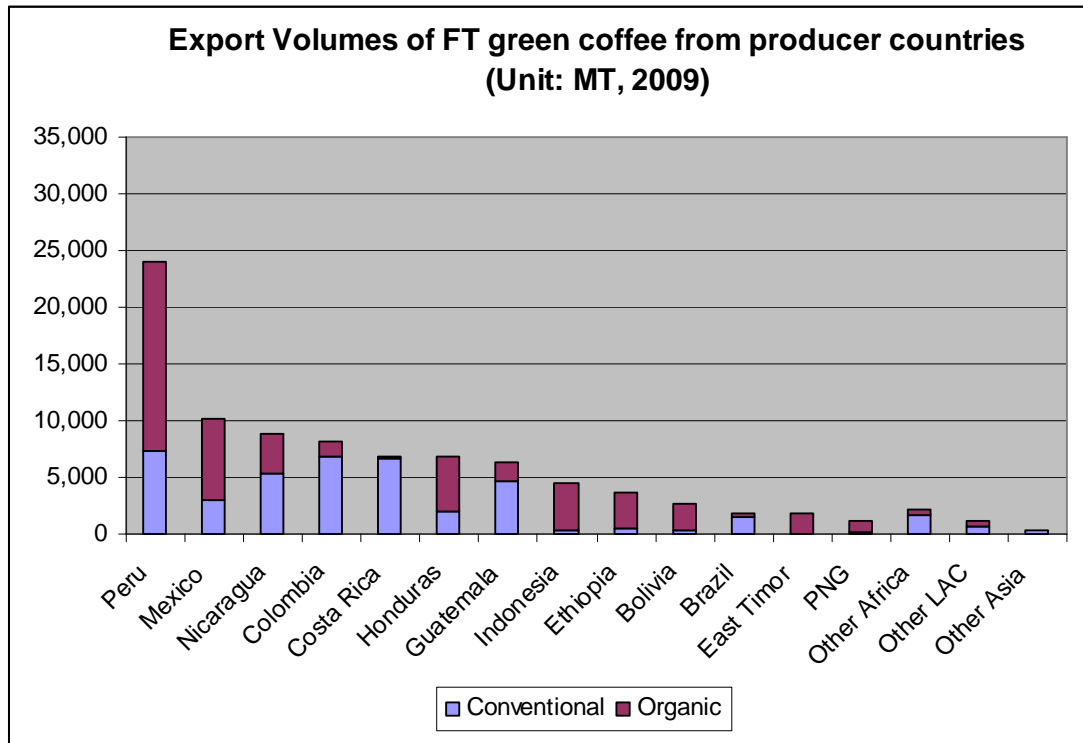
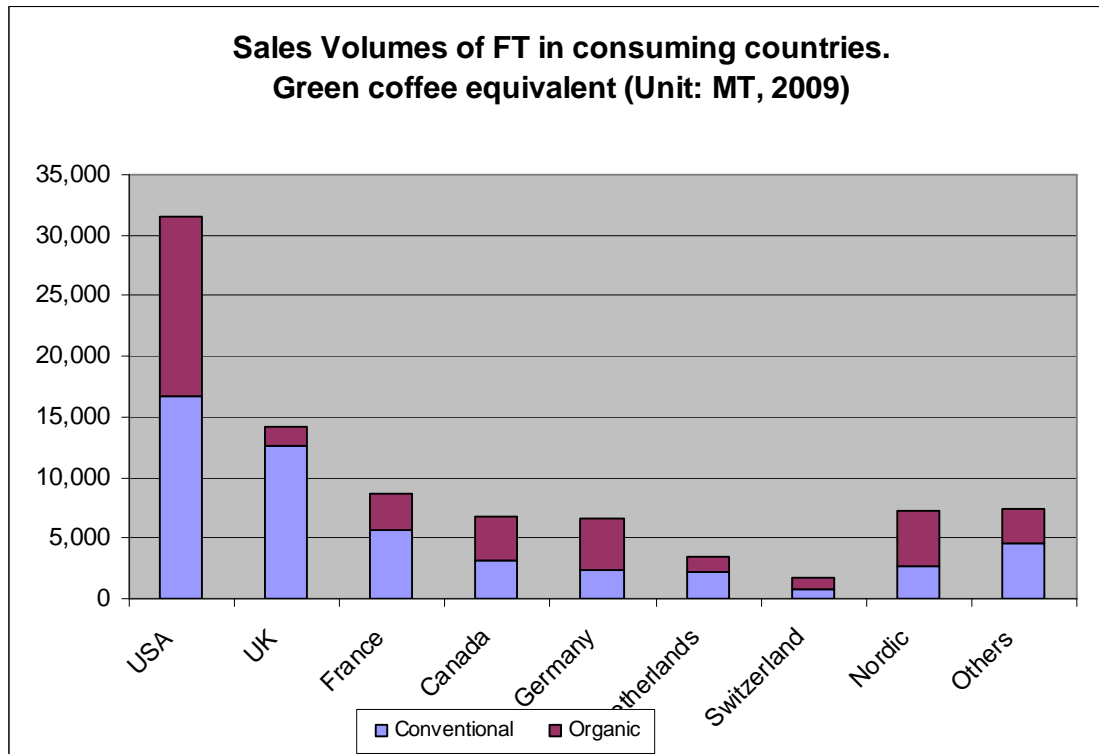


Figure 6. Sales Volumes of FT coffee in market countries (year 2009). Source: FLO e.V. (roasted coffee regularly accounts for more than 95% of yearly sales volumes). Green Bean Equivalent equals the sales volumes multiplied by a 1.19 conversion rate (ITC, 2010).



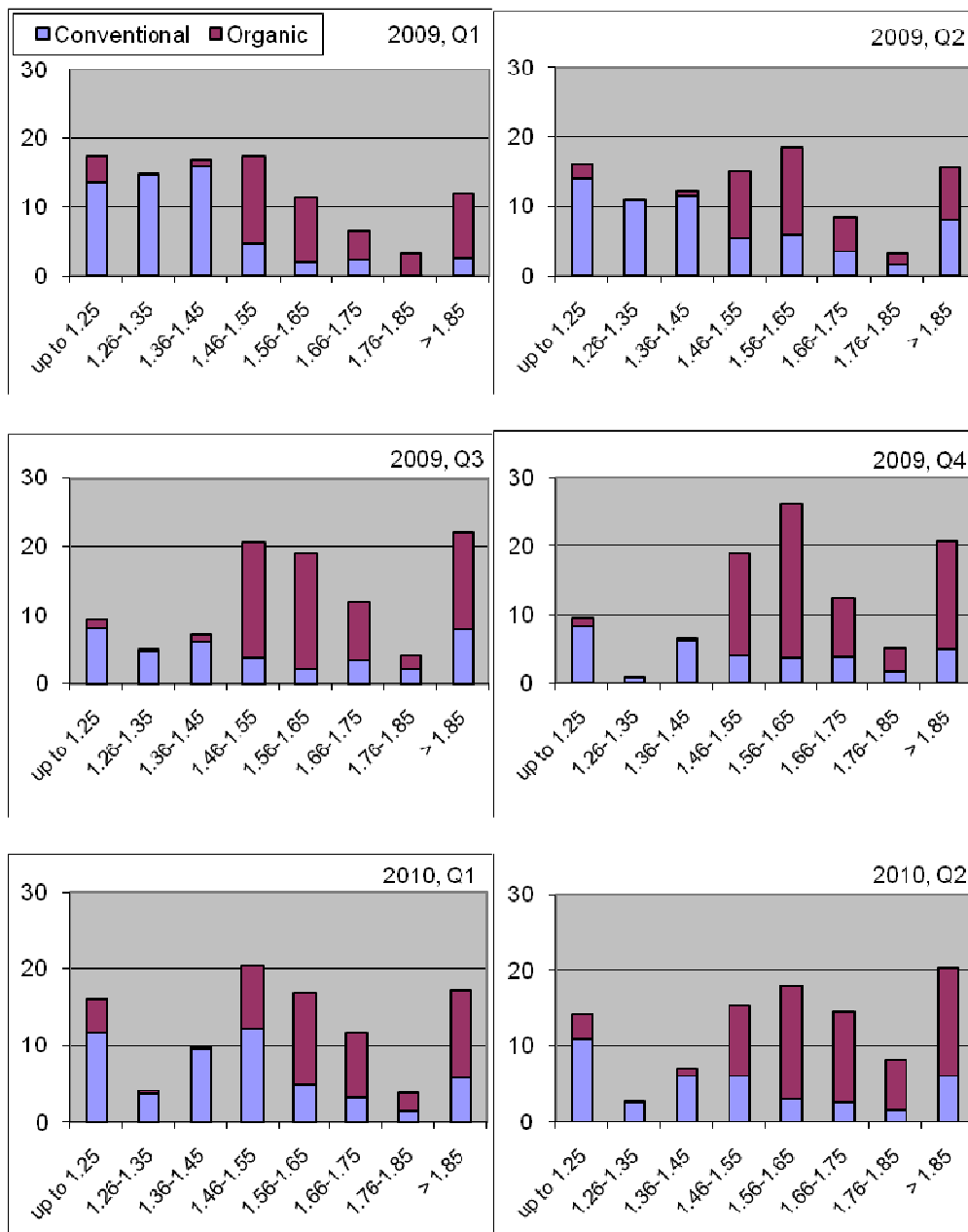
Data on Fairtrade transactions (2009, FOB) have covered around 80% of the certified Arabica producing SPOs (255 out of total of around 320 SPOs). FT certified Arabica producing SPOs have a production capacity (potential supply) of around 600 000 MT of green coffee in 2009 (data from around 25 SPOs are still in process and have been estimated for this calculation). Only 16% (90 339 MT) of this volume has been reported as traded under FT terms. Organic coffee represented 54% (49 176 MT) of the reported FT Arabica transaction volume in 2009.

Fairtrade Coffee: prices

Starting in Q3 of 2009, prices of FT Arabica coffee have moved up into ranges above 1.45 USD per pound of green coffee (Figure 7).

Figure 7. Percentage of reported FT Arabica coffee contracts by price range (FOB, USD per pound of green coffee; prices do not include the FT premium USD 0.10). Source: FLO-CERT, registered transactions of Fairtrade Minimum Price and Premium.

Quarterly distribution of percentage of FT Arabica coffee contracts by price range in 2009 and 2010 (FOB, USD per pound of green coffee; prices do not include the FT premium USD 0.10).

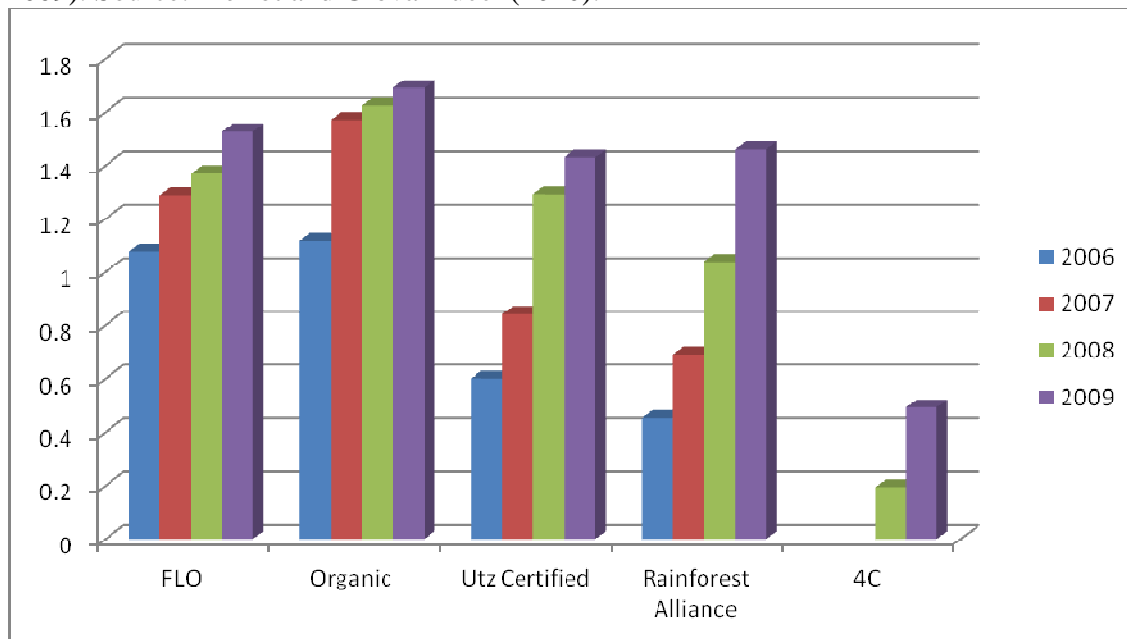


Trends on the specialty coffees and certified coffees. Influence on the conventional market

Certified coffee is no longer a small market niche. For instance, although the market share of Fairtrade certified coffee is estimated at only 1% of worldwide coffee sales (Krier, 2008), it varies from market to market and reaches 20% market share in the UK (Pay, 2009).

In 2009, more than 8% of all the green coffee exported worldwide had some form of certification or credible claim of sustainability. The Netherlands is the leader in market share with almost 40% of its coffees now certified. The U.S. market is second with 16% of all coffee imports certified. Certified coffees in Denmark, Sweden, and Norway have passed 10% market share. 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 (Pierrot and Giovannucci, 2010) (Figure 8).

Figure 8. Share of differentiated coffees in the total volume of traded coffee (years 2006-2009). Source: Pierrot and Giovannucci (2010).



Certified coffees are growing in other markets as well. In South Korea, Australia and Singapore, certified coffees 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 coffee segment (e.g. specialty).

No other segment of the global coffee industry has grown as consistently and as fast as the one for coffees that are certified as sustainable. When compared to the findings in the first ever empirical surveys of these coffees conducted at the beginning of the decade in North America (2000), Europe and Japan (2002), the overall growth is notable and irrefutable. Perhaps even more importantly, it has provided leadership to other commodity industries such as tea, cocoa, and cotton as they explore their own paths to sustainability. The world of agriculture benefits from the innovation of the coffee sector.

Fairtrade in coffee is dominant in the United Kingdom and France, and now in the USA. 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. Organic coffee is more important in Germany, Canada, Australia, Italy and the USA (Pierrot and Giovannucci, 2010).

Organic trends at the global level

Demand for organic coffee continues growing. Organic is not only 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 of the 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.

Organic coffee is the most important category of sustainable coffees, both in quantity and value. In the first decade of the century, global sales have increased by almost 250%. Although it is the most widely available certification, sales in recent years have begun to slow from their earlier considerable levels of growth. In most markets, growth levels still outpace the growth of comparable conventional coffees even despite the considerably higher price of organics and even despite the recent economic pressures during the recession of 2008-2010. At origin, the level of new organic certification is slowing at the close of the decade. Other standards are recently growing at a faster rate particularly with large mainstream roasters (Pierrot and Giovannucci, 2010).

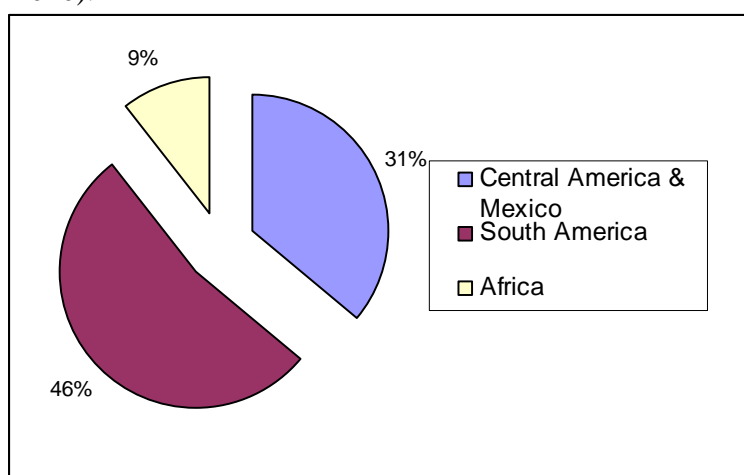
Perhaps surprisingly, organic is one of the most difficult certifications for which to collect reliable data. No government or customs agency effectively tracks organic coffee imports. Even cash register data is incomplete. This is compounded by the many certifying agencies for organic coffee, most of which do not share data on volume or value or, worse, do not collect it. The only alternative therefore is to survey the significant organic coffee importers for North America and Europe whereas for Japan, statistics were secured from the All Japan Coffee Association. Import statistics for the North American market (USA and Canada) are very reliable, coming from surveys covering about 95% of the industry, and collected annually since 2000. For Europe and Japan, the first statistics on organic coffee sales were collected systematically in 2003 (Pierrot and Giovannucci, 2010) (Table 2).

Table 2. Worldwide imports of certified organic coffee (green coffee in 60kg bags) (Source: modified from Pierrot and Giovanucci, 2010. Final numbers pending of confirmation by Giovanucci).

Regions	2004	2005	2006	2007	2008	2009
Europe	290,024	385,868.8	402,336	745,110	725,000	754,000
North America	275,000	316,700	511,700	612,300	672,800	703,080.3
Others	93,776	112,531.2	140,664	146,290.6	154,400	160,575
Japan	41,200	51,600	62,000	67,000	72,500	75,400
Total	700,000	866,700	1,116,700	1,570,700.6	1,624,700	1,693,055.3

In 2009, regarding the worldwide origins of certified organic coffee supply, the situation was similar to 2008. Organic is the most important certification for African producers who supply nearly 10% of global needs. The main exporters are Peru (about 15% of all coffee from this country is certified organic), followed by Mexico and Honduras in Latin America. Indonesia leads in Asia and Ethiopia is Africa's dominant source (Figure 9).

Figure 9. Worldwide supply of organic coffee in 2008. (Source: Pierrot and Giovanucci, 2010).



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