



Who pays the price?

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Back of Room 1.1: Second Floor, Messe Berlin

THE CRISIS

On Friday, April 12, 2019, the price of coffee reached its lowest point in the last 12 years at \$90 USD/100 lb for washed Arabica Coffee in the NYSE. These last days, its price has ranged from \$100 USD and \$110 USD, below the price of coffee in the 80's, last century. In conclusion, this price crisis for coffee producers is a situation that happens to be more permanent than seasonal.

The recent exacerbation of this crisis has resulted in a humanitarian disaster and an emergency situation amongst millions of small coffee farmer families around the world – by dropping out the activity, immigrating, migrating to illegal crops, deforestation, unemployment and poverty. This an actual problem we are facing right here, right now, not a theoretical issue that may occur in the long run.

We have noticed that the market is under the control of just a few large coffee corporations and supermarkets that bring down the value of coffee, even with organic and fair-trade certifications, by selling coffee at dumping prices, through unfair competition against SMEs who have been historically committed to small farmers.

We, high-quality coffee farmers, are not immune to this phenomenon. Low market prices foster poor-quality production and consumption which, in turn, cause high-quality coffee prices to drop. The gap between the stock prices and the actual selling cost of high-quality coffee has become too wide for many companies. And expecting that 100% of the market becomes specialized is nothing but a utopia.

We would like to speak clearly that this crises was caused by small coffee farmers. Overproduction is caused, *inter alia*, due to large investments in new production areas made by governments, large farmers, multinational companies and even cooperation bodies.

On the other hand, consumer prices have not dropped significantly after this price drop; large companies have reported historic profits; and farmers are the only ones who carry the can.

PRODUCTION COSTS

In SPP Global, we have set a minimum price for organic coffee at \$200 USD/100 lb, based on a study conducted by CLAC/SEM published in February 2010. With an additional SSP incentive of \$20 USD/100 lb, \$220 USD/100 lb are added as the minimum price to pay. The accumulated inflation for the USA has reached 1.8% on an annual basis over the last 10 years. This means that \$200 USD at the time are equal to \$240 USD at today's prices, above \$220 USD on top of the minimum SPP.



In addition to the impact from inflation, production costs have increased considerably for many other reasons:

1. More demands from the market and commitments by small farmers with coffee quality. Quality improvement has an impact across all production and processing process stages, in terms of investments in individual and collective infrastructures, experiments, training, input, controls and activities.
2. Increase in the certification costs of the several mandatory and voluntary standards on sanitation, organic production, sustainability, fair trade, etc. New regulations, such as the recently amended EU Organic Regulation that threatens to make the organic certification less and less accessible for small farmers, *inter alia*.
3. The climatological instability increases the incidence of diseases, droughts, excess humidity and creates higher production and processing risks in terms of investment and productivity; fluctuation is extreme, with losses of up to 100% of the annual production.

SPP Global has recently started a collaborative process to review the costs of producing sustainable organic coffee from the eye of small farmer organizations. On the one hand, by making more visible any hidden costs, such as family labor, subsidies, inherited means of production, financial expenses. On the other hand, by integrating an analysis considering the financial, social and negative and positive impact or external causes on the production methods used by small farmers compared against traditional large-scale productions.

TELLING THE TRUTH

Small organized farmers believe that it is key to speak the truth when it comes to the production costs to market stakeholders and, lastly, to consumers.

Transparency and honesty are core values that cannot be put at stake. Whatever product that claims to be sustainable MUST be fully sustainable, and not only in part. Moreover, we believe that high-quality coffee in a cup is not really top quality if it fails to meet financial, social and environmental sustainability criteria, all at the same time.

The coffee industry must come to recognize that current prices are being destructive for small producers and for the whole coffee industry. We cannot talk about sustainable or fair-trade coffee if we know that prices paid do not actually allow small coffee farmers to earn dignified income, whenever this income is deemed to be a Human Right.

It is not uncommon to hear that coffee pricing crisis may be addressed in the long run and that farmers cannot be paid with prices that can actually allow them to cover the production costs, for now. Alternate approaches suggest that farmers need to be more efficient and productive and to diversify, i.e., can is, once more, to be carried by farmers exclusively.

Believing that increasing the yield of coffee activities to manage to drop the price is the silver bullet to address the coffee pricing crisis would mean that the actual contribution of small production in terms of environmental protection, job creation, social inclusion, etc. are left unrecognized. Moreover, we would be getting into a negative spiral that would only exacerbate the situation of small farmers by promoting overproduction.

WE CAN DO THIS

We have moved forward, along with our trading partners, in developing a market that can observe the minimum prices that have been established by us, small producers, with averages above the minimum \$220 USD established by SPP. Fortunately enough, there are more and more micro companies and SMEs committed to small farmers that observe these prices, which results in a +40% growth in the annual SPP coffee market value, both in the specialized store segment and certain supermarkets.

Furthermore, some leading companies in the high-quality sustainable coffee sector have decided to standardize their prices according to SSPs, regardless of their certifications.



AN URGENT COMPACT

We hereby propose a sustainable coffee sector compact to tackle the pricing crisis for small coffee producers. This compact shall include the following: 1) Increasing the number of purchases and sells of products by small sustainable farmers at actual dignified prices; 2) Volunteer regulation efforts shall be transparent when it comes to the production costs handled as a benchmark for their own prices and to cause them to update their minimum rates ASAP; 3) Fostering coffee production cost studies from the active perspective of small organized farmers based on their methodology design and calculations; 4) Researching and, where appropriate, fostering dramatic actions to combat coffee pricing dumping in the market; 5) Taking the express commitment to work with small organized coffee farmers and making non-client investments with them; 6) Investing in studies and making the negative financial, environmental and social impact from non-sustainable production and prices more visible and raising awareness on the positive and deep impact of a sustainable production comprehensively speaking; 7) Actively influencing domestic and international laws banning the trade of non-sustainable products. ■