

## Under what conditions do labels support development? The example of coffee

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**The coffee sector, a source of income for 25 million producers around the world, is faced with social and environmental challenges which have led to it being a focus of attention for certifications and labels related to societal improvements. It is therefore an ideal area for addressing the issue of the impacts that these initiatives have on producers' living conditions and the environment.**

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At the start of the 21st century, the history of coffee is first and foremost the history of a marketing success story in terms of globalization: over two billion cups of coffee are consumed every day, generating a turnover close to USD 200bn a year. Over the past 20 years, the success of pods and capsules has enabled established sector leaders to significantly increase their sales: for example, the added value created in France by roasters and supermarkets more than doubled between 1994 and 2017 to EUR 2.6bn.

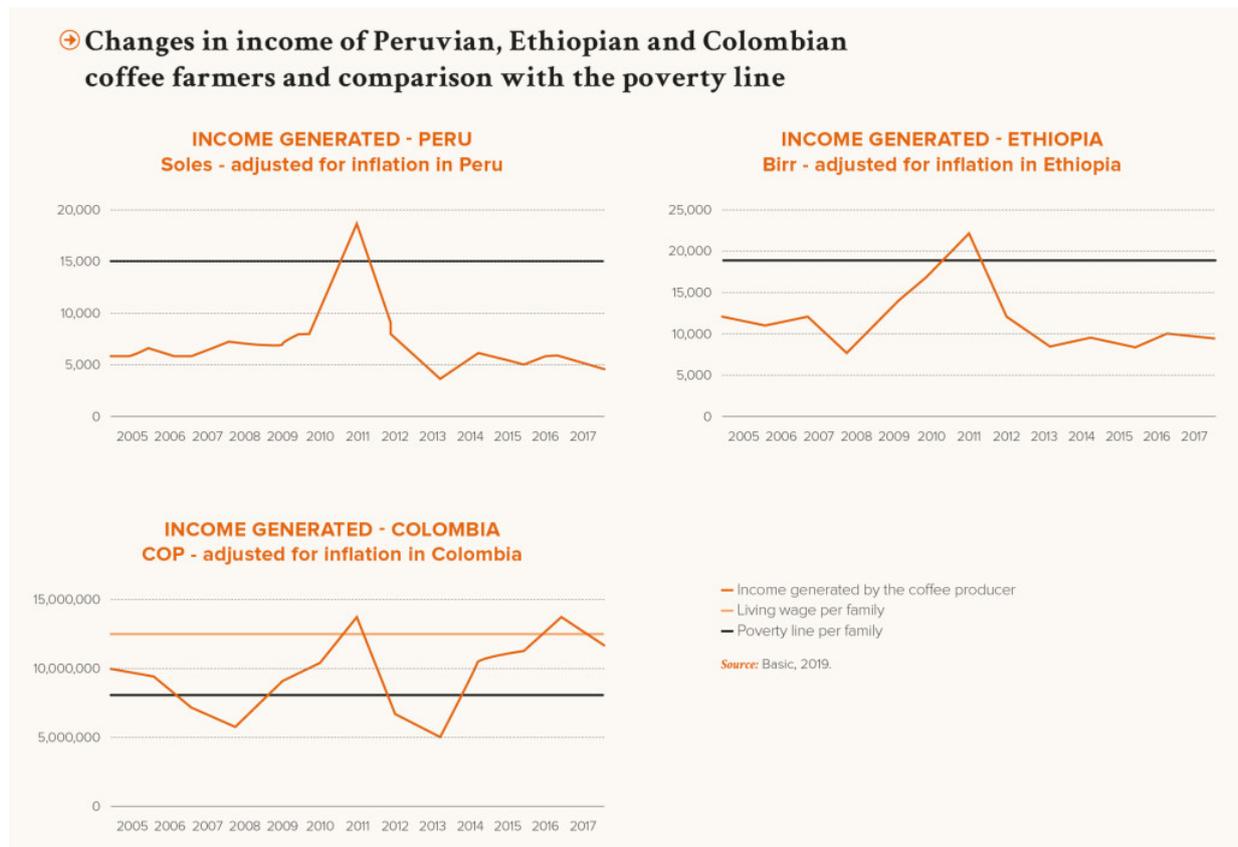
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This additional wealth creation primarily benefits the 3 multinational companies (Nestlé, JDE and Lavazza) which now account for 81% of sales - a percentage that “only” stood at 70% ten years ago. The downstream industry is thus characterized by a growing concentration, which also concerns traders: in 2013, the five main traders managed some 40% of global trade. This results in an ever-increasing power asymmetry which benefits roasters and traders and weakens the bargaining power of producers. It also partly accounts for the fact that there is no trickle down of economic value throughout the value chain. In 20 years, roasters and distributors have gained an additional EUR 1.2bn from their annual coffee sales in France, against an additional EUR 64m for producers and traders. Over the same period, the income earned by producing countries has fallen from 24% of the retail price of a packet of coffee to 16%.

## Growing societal impacts exacerbated by climate change

Yet most coffee growers are currently experiencing deterioration in their living and working conditions. They are faced with regular declines in world coffee prices and an increase in production costs related to labor and input costs, are dependent on their buyers, and also suffer from a critical lack of cash flow. For example, in 2017, Peruvian and Ethiopian producers earned an income 20% lower than 12 years earlier once adjusted for inflation, keeping them below the poverty line (see Figure). The result: problems of malnutrition, illiteracy and even child labor are seen among families who grow coffee, with their impoverishment fueling migration and drug trafficking on a wider scale.



Other alarming trends include the increase in environmental pollution related to the use of chemical inputs, and the deforestation resulting from the expansion of coffee growing and the intensification of agricultural practices. These trends are taking place in a context of the growing impacts of climate change on coffee production, especially for Arabica: the yields and quality of harvests are regularly affected, with an increase in production costs and a reduction in producers’ incomes.

## A number of alternatives... with mixed results

The sustainability of the coffee sector is consequently called into question. Although it was one of the first sectors to be subject to labelling processes (to ensure better living and working conditions for producers or compliance with environmental criteria), only 10% of the coffee produced is currently certified and there are mixed results in the field.

In the coffee sector, the main social and/or environmental specifications are for organic farming, fair trade (Fairtrade International, “Símbolo de los Pequeños Productores”, Fair For Life, etc.), and “sustainable” labels developed by Rainforest Alliance and UTZ Certified (which merged in 2018). There are also internal private standards set by companies, such as 4C’s code of conduct, Nespresso’s AAA program and Starbucks’ C.A.F.E. practices.

The principles and guarantees related to these initiatives vary enormously: reduction in environmental impacts and compliance with International Labour Organization (ILO) conventions for “sustainable” labels and internal systems, minimum price guarantee, collective bonus and democratic organizational principles in addition to the previous requirements in the case of fair trade, a ban on pesticides for organic farming...

On the production side, while it is difficult to objectify the impacts of the processes mentioned, there are impact studies on organic farming and fair trade which show an improvement in producers’ incomes and bargaining conditions, as well as a mitigation of impacts on the environment.

“Sustainable” labels and internal specifications suffer from a lack of independent evaluation of their impacts (beyond specifications), making it impossible to determine the tangible benefits which can be attributed to them.

On the consumer side, the vast number of labels tends to complicate responsible purchasing approaches.

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## What drivers to improve impacts?

Existing research does, however, make it possible to identify key drivers which allow - or could allow - existing certifications and labels to further contribute to the development of rural territories and the conservation of the environment.

Firstly, producers’ incomes and the distribution of value is a key issue. Indeed, under-remuneration causes many of the social impacts (malnutrition, illiteracy, rural exodus, etc.) and environmental impacts (use of inputs to maintain/increase production and compensate for low prices) observed. The minimum price set by fair trade shows that industry players can extricate themselves from the international price-setting approach. Fair trade is, however, currently failing to influence the distribution of value. Yet in the case of coffee, a better distribution of value would allow most producers to rise above the poverty line they remain trapped under.

Another issue is the capacity of the producers in question to sell their entire certified production under the corresponding trade conditions, which is often not the case due to the lack of sufficient demand - for example, in the case of fair trade, two-thirds of certified coffee are sold as “conventional” coffee. In addition to the increase in volumes sold via actions to raise awareness among consumers and economic actors, certification systems need to systematically include: the collective organization (cooperative, association, etc.), which provides the conditions for solidarity between producers and ultimately benefits the entire community; the issue of access to (pre)financing at certain periods of the year to ensure harvests and the maintenance of plots.

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Certifications and labels would also benefit from considering how they are coordinated with public regulation policies, in producing countries and consumption countries, rather than positioning themselves as autonomous systems intended to make up for the current shortcomings of countries, as stated by certain labels. For example, the role of the Colombian State, via the “Federacion Nacional de Cafeteros” (FNC), in maintaining the incomes of coffee growers demonstrates the potential leverage effects for public authorities on which the alternatives could capitalize in order to scale up their impacts.

Certain associations between certifications would appear to strengthen the impacts of each system: fair trade, combined with organic farming, achieves greater impacts on incomes and the environment. This is, for example, what has been seen in Peru, via the preservation of the agroforestry model. These complementarities should be integrated more into strategies to develop initiatives.

Finally, a major challenge for social and environmental certifications and labels lies in creating the conditions for complete transparency in their results and an independent monitoring of the impacts of their processes. This would strengthen the support of all stakeholders (consumers, economic actors, producers, institutions).

Footnote:

1 Fair trade and sustainable labels certified by an independent third party. Internal private standards are not taken into account in this total.

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