

Who will pay the Costs of Sustainable Coffee Production?
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Abstract

Fair Trade is the only the major sustainable coffee certification initiative, among a growing list that includes Utz Certified, Rainforest Alliance, organic and shade grown, that guarantees a minimum prices. In 2007, and again in 2008 the Fair Trade Labeling Organizations International actually increased the nominal Fair Trade prices. A central element of the fair trade model for coffee is a guaranteed price floor, a premium for social development and a differential for organic coffee. These minimum prices are intended to cover the “costs of sustainable production”, providing cooperatives and small-scale farmers with a “living wage” that is sufficient income to meet production costs and satisfy basic needs. In this paper, we synthesize the studies that evaluate the evolution of the price floor in relation to production costs (including changes in certification requirements), quality standards and living costs in eight countries in Central American, South America and the Caribbean (Colombia, Costa Rica, Guatemala, Haiti Honduras, Mexico, Nicaragua and Peru). This combination of declining real price premiums and increasing costs of sustainable production has caught many small-scale producers in the familiar cost-price squeeze. Does fair trade offer an avenue out of this? We found a steady decline in the sufficiency of the price floor in most countries, only partially mitigated by its periodic upward trends due to favorable exchange rates between local currency and the US Dollar. The variability across countries is great, however, with the real fair trade floor’s value falling nearly 60% in Haiti over the period of 1980-2007 while holding nearly constant in other countries. These findings demonstrate the need for more systematic research about pricing and the costs of sustainable production. We conclude with a proposal for an alternative price adjustment scheme to replace the current ad hoc approach with one that is systematic and predictable.