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Reflections on the Rising Coffee Market

by Rink Dickinson and Susan Sklar

In the past few months the New York Arabica coffee market has risen from 75 cents to \$1.20 per pound, and many coffee experts believe that the market will climb 30 cents higher before it finally levels off. Given this spike, it would be logical to conclude that farmer cooperatives—the foundation of the Fair Trade system—would benefit from the increased revenue. But this is not the case. Ironically, when prices in the coffee market rise, the pressure on small farmer cooperatives actually increases, resulting in a weakening of the Fair Trade system. To understand this dynamic, it's important to describe the reasons for the rising prices in the coffee market. First, poor weather in Brazil—the largest coffee producing country—damaged coffee plants, which has led to a shortage of beans. Second, given the previous four years of extremely low coffee bean prices, many small farmers couldn't afford to maintain their coffee trees or to replant for the next season. With this shortage of product, beans are more sought after and small farmers who have them can attract higher prices from conventional brokers.

In the present more competitive market, cooperatives with weaker links to their membership are at risk of losing their coffee supply to middle-level traders. During lean markets, leaders in tight-knit cooperatives educate their members about the benefits of Fair Trade so that there is a commitment to supporting the co-op regardless of market fluctuations. But in co-ops where links to the members are more tenuous, the farmers receive Fair Trade benefits during poor markets but may not fully understand the relationships that secure those benefits. With a higher market and more demand for beans, these farmers may try to increase their income by selling to outside traders. This will lead to a shortage of inventory for the co-op as well as a reduction in exports and a lower income. In the worst case scenario, the cooperative won't be able to meet its commitment to the Fair Trade market and will be forced to default on its contract.

Since Equal Exchange began its journey almost 19 years ago, the coffee landscape has changed beyond recognition. For most small producers more has been lost than gained. On the macro level, farmers have greatly diminished control over their crops and have been forced to sell them for less than they cost to grow while the specialty coffee industry has accumulated huge profits. During this same period, industry leaders such as Seattle's Best and Sara Lee raised their prices to consumers, though their own costs had dramatically declined. It's paradoxical that during this period, the industry made a major move toward "ethical marketing." Fair Trade, organic, sustainable, and rainforest coffee sales experienced substantial growth while small farmers suffered from a commodity crisis of historic proportions.

The current high coffee market will help small farmers gain income temporarily, but within 12 to 24 months anemic pricing is likely to return, leading to a new crisis. In order to counter this economically

devastating cycle, consumers need to support fully dedicated Fair Traders, such as Equal Exchange, through buying products, investing money, organizing, and educating other consumers. In the long run, we need to build a strong consumer/farmer network that pays farmers fairly, and that is at least somewhat autonomous from the commodity market. This kind of network will help to protect small farmers from coffee market lows and will bolster farmer cooperatives, the building blocks of Fair Trade.

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