



Project brief: 2/19

Global benchmarking of coffee production

The International Coffee Organization is calling for partners to join and support the gathering and processing of independent, objective and internationally comparable data on coffee production cost, revenues and production systems.

This initiative will help to better understand the main drivers of economic sustainability of coffee farming - at a time when low price levels affect the livelihoods of producers - and also to identify solutions to improve social, economic and environmental sustainability in the coffee value chain.





I. The challenge

Since 2016 the coffee market has experienced a continued downward trend and today coffee prices are over 30% below the 10-year average. Many of the over 20 million coffee farmers worldwide are facing losses as they struggle to cover their operating costs while prices decrease, but inputs, compliance and transaction costs rise. As a result, farm incomes dwindle and the livelihoods of coffee-producing households, the majority of which are smallholder family farmers in low- and middle income countries, are increasingly at risk.

The economic and social consequences for producing countries can be severe and include social unrest, national and international migration, the abandonment of coffee growing or even switching to the production of illicit crops. Furthermore, the lack of investment in the maintenance and modernization of coffee farms poses a serious threat to future supply, exacerbated by growing demand for coffee worldwide.

Furthermore, current coffee price levels foster concentration of production in a small number of origins. Today, just five countries produce over 70% of the world's coffee. Losing diversity of origins increases the global coffee sectors' vulnerability to severe market shocks such as extreme weather events affecting any of the top producers with a potentially dramatic impact on industry, workers and consumers.

II. A broad response

The Members of the International Coffee Organization (ICO), both exporting and importing countries, recognize that urgent action is required to alleviate the damaging effect of current low coffee prices on coffee-producing households and to increase farm productivity as well as growers' resilience against market and weather shocks.

At its 122nd Session in September 2018 in London, the International Coffee Council adopted Resolution 465 to address the impact of low prices on the livelihoods of coffee farmers. This Resolution provides the Organization with a strong mandate to analyze the impact of low prices on farmers and to support the development of innovative solutions to improve the economic sustainability of coffee production as well as ways to address price volatility and shocks.

As mandated in the International Coffee Agreement (2007) to provide objective and independent data and economic analysis on the state of coffee production, the ICO can rely on its own statistical function with more than 50 years of experience in maintaining a unique and comprehensive database on global coffee production and trade. This function is widely seen as an industry benchmark.

Adding globally comparable country level information on coffee production costs, revenues and production systems to this database, will help in understanding the factors driving the economic sustainability of coffee production in ICO Member countries and increase the ability of the Organization and its partners to respond to the challenges faced by the sector.



III. Project objectives

Against this background, the proposed global benchmarking of production costs, revenues and production systems has the following objectives:

- Close the data gap by providing a standardized and comparable publically available, independent estimate of production costs and revenues in coffee-producing countries
- Gain in-depth understanding and compare key costs (e.g. labour, fertilisers, pesticides, etc.) and resulting levels of farm profitability in individual countries
- Enable coffee farmers to benchmark themselves so as to identify opportunities for reducing costs and increasing productivity and profitability
- Strengthen the ability of the ICO and its partners to identify ways of improving the economic and environmental performance of coffee production, through the development of more effective technical cooperation programmes and investment
- Facilitate the exchange of best practice among Member countries.

IV. Scope of work and outputs

During coffee year 2018/19, the ICO Secretariat has carried out important ground work to implement the global benchmarking of production costs including a study with the UC Davis Coffee Center that provides new empirical evidence on cost of production, and addresses methodological questions related to the collection and analysis of production costs.

Furthermore, the ICO Secretariat has undertaken an initial screening of benchmarking approaches employed in other agricultural commodities. These range from a 'typical farm approach' based on expert interviews to the collection and analysis of farm-level data from a representative sample of growers. The approaches differ in terms of accuracy, cost and scalability. Synergies could be realized by cooperating with organizations that already engage in data collection (e.g. the private sector).

Phase 1: Inception (6 months)

- 1) Establish a standardized methodology to collect systematically information on cost of production including breakdown in fixed costs (e.g. establishment costs) and variable costs (labour, agro-chemical such as fertilisers, pesticides, others).
- 2) Hold a workshop with partners (including value chain actors and other organisations that collect or hold data on coffee farming) and determine methodology used in the pilot.



Overview

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| Duration: | Inception (6 months) followed by the pilot (up to 12 months). Once the outcomes of the pilot phase have been assessed, expansion of country coverage is envisaged |
| Countries: | Multi-country (Brazil, Colombia, Ethiopia, and Vietnam) |
| Implementation: | ICO Secretariat with support of an implementing agency |
| Intended partners: | National coffee associations in ICO Member countries Roasting industry Commodity traders Agricultural input providers (agro-chemicals, fertiliser) Other national and international organizations and financial institutions |
| Cost: | Inception: <i>15,000 EUR</i> (consultant assignment and expert workshop) Pilot: <i>from 200,000 EUR</i> (depending on approach) Roll-out: <i>from 680,000 EUR</i> (Top 15 producers or 85% of world output depending on approach) Annual cost (after roll-out): <i>from 180,000 EUR</i> (for update and maintenance) |

About the International Coffee Organization

The International Coffee Organization (ICO) is a multilateral organization, which works through international cooperation to strengthen the global coffee sector and promote its sustainable development in economic, social and environmental terms.

Our Member Governments represent 98% of the world's coffee production and over two-thirds of world consumption, providing a unique forum for the global coffee community. Our Members regularly discuss and decide the ICO's guiding principles, strategy and work programme in line with the 2030 Agenda for Sustainable Development.

Our strategic focus is on:



- Delivering world-class data, analysis and information to policy-makers and the industry
- Providing a global forum for dialogue between and within the public and private sectors
- Facilitating development projects and promotion programmes through public-private partnerships.

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