Perspective of Fairtrade bodies on equitable trading and the world coffee economy

Round table on Equitable Trading and Coffee
ICO London 18 May 2004
Phil King
Finance Director, Cafédirect plc

Proper economic prices should be fixed not at the lowest possible level, but at the level sufficient to provide producers with proper nutritional and other standards in the conditions in which they live... and it is in the interests of all producers alike that the price of a commodity should not be depressed below this level, and consumers are not entitled to expect that it should.

John Maynard Keynes, 1946

A new concept?

Cafédirect's aim
to do business in a different way

Cafédirect's Mission:
"To be the leading brand which strengthens the influence, income and security of producer partners in the south and links them directly to the consumer"

Branding/awareness
Innovative campaigns

Cafédirect's Vision:
"To capture the tastes, hearts and minds of mainstream hot drinks consumers"
every pack tells a story
does good business make business sense?

Business rationale
• transfer risk from producer
• create investment climate
• Cafédirect Gold Standard approach
  • directness
  • Fairtrade premiums plus
  • Producer support & development

Cafédirect allocation of risk
• minimise growers risk
  – guaranteed minimum prices, paid locally in US$
  – 12-month forecasts, guaranteed 75% take-up
  – up to 60% pre-finance available
  – producer protection fund
  – de-fragment to improve negotiation
• spread Cafédirect risk
  – ‘virtual company’ structure
  – minimal (<10%) fixed cost base
  – innovative / targeted marketing

Balancing supply chain
Demand ‘pull’
  sales promotion supplier criteria
  market research supplier development
Supply ‘push’

Create investment climate
• more confidence in future
• availability of:
  – funds
  – market knowledge
  – expertise

Cafédirect Gold Standard Directness
• 2-way communication
• mutual understanding
  – producer needs, aspirations, resources
  – consumer / market trends / prices
• identifying
  – market/consumer requirements
  – product quality/quantity/consistency
Cafédirect Gold Standard Directness

- bi-annual producer conference
  - strategy, sharing ideas
- trade links
  - credibility

Cafédirect Gold Standard Directness

- producers visits to UK
  - Board observers / directors
  - consumer/trade promotions
  - presentations to roasters
- staff visits to producers

Cafédirect Gold Standard Fairtrade premium +

- higher of ‘market + 10%’ or FLO minimum
  - up to $1.61 for gourmet / organic
Fairtrade premium +
- ‘the pick of the crop’

Cafédirect Gold Standard Producer support & development

- business support programmes
  - tailored to each organisation
  - marketing (Compras, Mexico)
  - local market development
  - husbandry
  - crop diversification
  - education

Cafédirect Gold Standard Long-term relationships

- ongoing purchases
  - quality monitoring
- credibility
  - eg Haudquiña/el Niño
- share ownership

Cafédirect Gold Standard

- equitable trading relationships
  - sharing risk
  - sharing knowledge
  - informed choices, empowerment
- quality of life
How many?

250,000 farmers
33 organisations
11 countries

How much?

<table>
<thead>
<tr>
<th>£‘million</th>
<th>Year to 30.9.03</th>
<th>Year to 30.9.02</th>
<th>18 m to 30.9.01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>13.6</td>
<td>10.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Premiums</td>
<td>2.8</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Pre-tax profit</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>PS&amp;D</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
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Market Share %

<table>
<thead>
<tr>
<th>Value share at March 2004</th>
<th>Target value Sept 2004</th>
<th>Target value 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roast &amp; Ground</td>
<td>8.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Freeze Dried</td>
<td>3.7</td>
<td>3.7</td>
</tr>
</tbody>
</table>

4th largest UK Roast & Ground brand
6th largest UK coffee brand

Source: IRI analysis March 2004

“We don’t want the consumer to try our products because we are poor, because we have problems. The image we want to present to you is that we offer a high quality product and we are a sustainable organisation. When we offer a high quality product, we know that you will buy again, and knowing that is very important to us.”
Blanca Rosa Molina, President, CECOCAFEN, Nicaragua

Good business makes business sense

CAFEDIRECT SHARE ISSUE

The future in your hands