FT versus Mainstream
Robert Simmons
LMC International

Outline
- Importance of FairTrade to global coffee sales
- Differences between FairTrade and the Mainstream
- Conclusions

Importance of FairTrade to global coffee sales
- FT sales are growing at 7% to 8% per annum.
- FT sales account for around 0.4% of global sales.

Fairtrade Sales are growing at 7% to 8% per annum.

Importing Country Sales, 2003
- US, UK and France: fastest growing FT markets
High proportion of organic coffee sales
- Around 51% of the imported FT volume was organic in 2002.
- Excluding North America, 44% of the FT volume was organic.
- In the USA, about 85% of volume is organic.

FT versus Mainstream
Two Major issues:
- Fixed minimum price versus market determined price
- Direct Sales

Fixed price versus market determined price
- FT minimum US$ 1.26 per lb (arabica)
- Possible as buyers are able to raise f.o.b. price and retail price
- Competes with higher priced R&G coffee products
- Washed arabica based products
- Greater attraction to growers in low price periods.

Mainstream initiatives at market differentiation are based on raising price premiums:
- Market based certification schemes: Rainforest Alliance, Utz Kapeh Foundation, Organic, etc.
- Minimum prices: some specialty buyers

However, once remove premium/specialty coffees, bulk of coffees are traded for mainstream brands. Price is determined by the market.
Direct buying
- FT buys directly from democratic cooperatives, long term relationships
- Mainstream buy from anyone
- No evidence that direct buying on its own reduces costs.
- Middlemen, with competition, service a valuable market function.

Marketing Costs

<table>
<thead>
<tr>
<th>Country</th>
<th>% of FOB Price Received by Growers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>90%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>80%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>70%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>60%</td>
</tr>
<tr>
<td>Colombia</td>
<td>50%</td>
</tr>
<tr>
<td>India</td>
<td>40%</td>
</tr>
<tr>
<td>Uganda</td>
<td>30%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>20%</td>
</tr>
<tr>
<td>Kenya</td>
<td>10%</td>
</tr>
</tbody>
</table>

Conclusions
Differences between mainstream and FT are primarily based on a different understanding of role of markets:
- FT price equates to production costs
- Mainstream prices related to supply and demand.

Increased differentiation in market (including FT). Provides options for premium prices to be paid to some growers and greater choice for consumers.
Anything that grows the market whether it be mainstream or FT has to be beneficial in redressing the market imbalance.

Some similar initiatives in mainstream:
- Specialty Market
- Nestlé where it operates soluble plants at origin