



The North American  
Organic Coffee Industry  
Report

2008

Daniele P. Giovannucci

## Note to Readers

Each year, this report includes independent research and also a survey that is conducted with the cooperation of nearly all of the coffee industry's significant importers. Neither government nor any other agency comprehensively tracks organic data. Having realistic data and an estimate of trends improves market functions and is important for both coffee farmers and policymakers in producing countries to help determine their strategies and investments.

I continue to provide non-profits and farmer groups in developing countries some of the basic information at no cost. I am grateful to all the industry colleagues and businesses that, since 2000, have trusted me with their private data to make this possible.



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*The quantitative market information is based on interviews and surveys. It is believed that the information provided herein was correct at the time that this document was written but is subject to fluctuation. The author assumes no responsibility whatsoever for any incorrect information supplied by respondents and can not guarantee, expressly or implicitly, the exactness of the information.*

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**In brief**

2007 Organic imports showed a considerable increase in both volume and value. Volume grew by 25% to more than 81 million pounds and retail value topped \$1 billion for the first time. This value makes it one of the most important Organic products imported into North America. Premiums to producers as well as green bean prices at origin increased from 2006 levels. Other certified coffees also showed considerable growth. Industry projections for 2008 indicate continued strong double digit growth in this market segment.

## The North American Organic Coffee Industry Survey

### 1. Who was surveyed & how

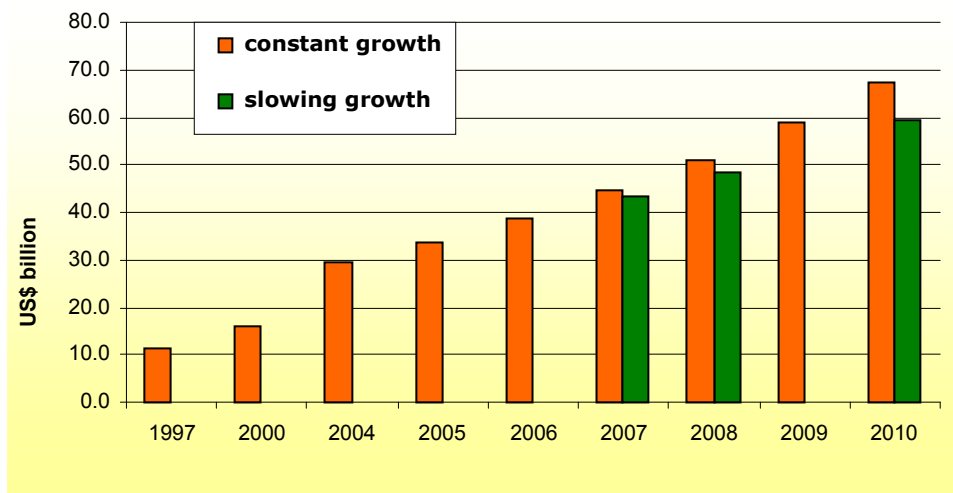
In 2007 there were more North American importers handling Organic coffee than ever before. More than 50 importers of Organic coffees were identified and estimated to represent nearly all of the total Organic green coffee imports to the region. A structured survey was sent to all of these in early 2008 and telephone or personal follow-ups were conducted until a desired rate of response was achieved.

As confirmed with data from a number of the most important Organic coffee roasters, the 37 firms whose data was collected are estimated to account for approximately a 95% share of the total market. While some of the smaller importers elected not to participate, all of the larger ones did and the purchasing data from some of the roasters enabled us to cover at least part of the volume from the non-participating importers. We have therefore based our calculations of the total on a 95% estimation from actual responses and added 5% to our confirmed import data to arrive at a final volume number.

## 2. Market Context

In 2007, the global Organic agrifood business showed double digit growth for the tenth year in a row and is estimated to have reached US\$44 billion at retail<sup>1</sup>. Few, if any, analysts are negative and most expect substantial growth. The more optimistic forecasts suggest that by 2012 this market will nearly double in size to US\$74 billion. Others are more circumspect and forecast slowing growth as there are very few untapped market channels to feed fast expansion and the road ahead is expected to be a more modest but healthy growth that well outpaces conventional foods in most categories. Assuming continued constant 15 percent growth from the mid-2000s onward, global organic retail sales would approach US\$70 billion in 2010. Following a more conservative scenario with growth declining from 15 to 10 percent over the period 2006 to 2010, sales would reach US\$60 billion (Figure 1).

**Figure 1. Global Certified Organic Sales Projections (all products)**



Source: Liu, Byers, and Giovannucci. 2008. FAO. Rome from various sources

North America - here referring to just the U.S. and Canada, as the Mexico market for Organics is considered quite small and mostly supplied by domestic producers<sup>2</sup> - accounts for just under half of this global market value and its share is expanding. Internal growth has been faster than in the EU region, currently the largest market area. Although the Organic market share in some European countries (i.e. Denmark, Austria, Switzerland and Sweden) is 4-6 %, of the total market, the share in the

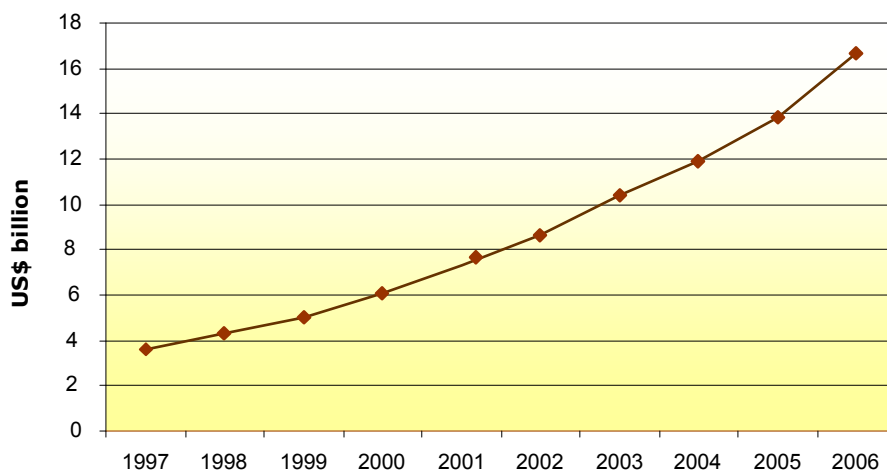
<sup>1</sup> Sahota, OM and others

<sup>2</sup> Mexico's domestic organic market is mostly supplied by approximately 80,664 certified organic coffee producers farming less than one hectare each, on average (Daniele Giovannucci y Ricardo Juárez Cruz. 2006. Análisis Prospectivo de Política Cafetalera. FAO: Mexico) and by some imports, most notably from Peru.

largest markets (i.e. U.S., Germany, UK, France, and Italy) is more in the 2-4% range.<sup>3</sup>

The estimated overall growth rate of North America between 2005 and 2006 was approximately 20% and a similar growth rate is projected to have occurred for 2007. The total U.S. Organic market grew from \$13.8 billion in 2005 to approximately US\$16.8 billion in 2006 (Figure 2) and around US\$21 billion in 2007. Approximately 95% of that is food and beverages while the rest is supplements, cosmetics, fibers (i.e. cotton and wool), flowers, household products, and pet food.

**Figure 2. Organic Retail Sales in the U.S. 1997-2006 (US\$ billion)**



Source: Liu, Byers, Giovannucci from OTA 2007

The U.S. is by far the largest national market in the world for Organics and has reached double-digit annual growth rates for more than a decade. From 1998 to 2005, Organic foods consistently registered growth rates in the U.S. of between 15% and 22% per year (Figure 2), thus comparing quite well with the 2% to 4% growth rate in total food sales.<sup>4</sup> Still, in 2006 Organic foods only accounted for about 3% of the total U.S. food and beverage market, up from 0.8% a decade earlier (1996).<sup>5</sup> Even with moderately slowing growth, Organics would easily account for 10% of the total value in the U.S. food market within 10 years.

### Drivers and Directions for Organic Coffees

A combination of three factors appears to continue driving consumer interest:

<sup>3</sup> Willer and Yussefi. 2008. The World of Organic Agriculture. Statistics and emerging trends 2007. IFOAM, Bonn and FIBL, Frick Switzerland.

<sup>4</sup> 'Demand for Organic Food Outstrips Supply' Associated Press. July, 2006. The Organic Trade Association. Estimates top growth to have been 21% (2007)

<sup>5</sup> Organic Consumers Association. 2007

1. growth in values-based purchasing
2. desire to participate in trendy or fashionable consumption
3. health or food safety fears

Many studies cite the first two trends: values-based and fashionable purchasing, yet relatively few have featured the third factor until very recently. An increasing number of food safety cases covered in the media stimulate public concern as many have national impact and affect entire product lines. One Deloitte survey clearly notes increasing pressure on manufacturers and importers too are operating at higher levels of scrutiny than ever for their products. In some cases, even Organics are not exempt from this concern. One notable example cited by the Organic Consumers Association and leading experts is the preference of some consumers to avoid Organics produced in China. Overall, food safety issues do not appear to be improving and increased media coverage is likely to continue driving demand for trusted or certified products.

Credible studies differ about the popularity of Organics. One cites that about 69 percent of U.S. consumers buy Organic products at least occasionally, a dip from the 73% reported in 2006.<sup>6</sup> Though the same studies note that core Organic consumers – those that buy on a regular weekly basis - continue to grow and represent 23% of the population.

*Progressive Grocer* and others suggest a plateauing of some organic segments. One study notes that overall household penetration of Organic products has remained below 60%. An *AdAge* article<sup>7</sup> likened Organics to the low-carb craze citing that Unilever's Ragu Organic Pasta Sauce and Kraft's Organic Macaroni & Cheese were not doing as well as expected. In its review of the Organic industry, Consumer Reports noted that certain products appear to make more sense than others as Organic in today's market; something that is reflected in the popularity of the Organic certification for fresh foods, dairy, baby foods, etc.

Organic coffee may not be in these more obvious categories and yet has enjoyed considerable consumer uptake. This may be due to the greater level of awareness fostered around coffee for its impacts at origin, or that coffee offers more opportunities for market segmentation than products such as "macaroni and cheese". Of the certified coffees, Organic coffee has the broadest level of market awareness by far. One study<sup>8</sup> notes that it is about twice as "popular" as other certifications on the market. In 2008 over half of consumers (51%) recognizing certified Organic coffee while 27% recognized Fair Trade, 21% were familiar with Rainforest Alliance, and others are recognizable only to 10% or less of consumers. While perception of Fair Trade has grown most in recent years, Organic coffee awareness has remained dominant and steady at about half of the adult population. That dominance is reduced when looked at in terms of actual purchasing as the findings indicate that though fewer, the daily drinkers aware of Fair Trade were more likely to purchase such coffee.

While U.S. daily consumption of coffee continues to surpass that of soft drinks –the most popular beverage for US consumers during most of the last decade– the gap is

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<sup>6</sup> "Organic 2006 - Consumer Attitudes & Behavior, 5 Years Later & Into the Future" & "The Many Faces of Organic: 2008". The Hartman Group

<sup>7</sup> "Organics Fail to Yield Cash Crop for Food Giants" in October 2006

<sup>8</sup> Based on a representative sampling of 2950 adults for the NCA survey: "National Coffee Drinking Trends 2008"

narrow. Daily consumption of coffee in 2007 was reported at 55% according to the National Coffee Drinking Trends Survey in 2008 (NCA). The gourmet category that typically includes Organics showed daily consumption had risen in 2007 to 17% of the total adult population.

For out-of-home consumption, some industry research suggests that many consumers simply don't look for or recognize the Organic labels particularly with single-serve products such as coffee, juices, or chocolate bars. Yet the trends toward overall Organic recognition appear inescapable as Organics are regularly covered in the mainstream media. Both Time Magazine and The Economist have run multiple cover stories. Momentum also continues to build in diverse commercial channels including convenience stores and leading mass merchandisers such as Target Stores, Kroger, and WalMart.

Much of the U.S. Organic sales come from domestic production – estimated at between 80-90% of the total – yet imports continue to grow. Fresh produce is the largest Organic sales category (more than a third of the total in the U.S.) and about 20-25 percent of this fresh produce is imported. Beverages account for approximately 15% of the total Organic market. Coffee alone registers about 5% of total Organic sales according to my recent calculations, making it one of the most significant individual Organic products sold in the U.S. and Canada.<sup>9</sup> It is the single most important Organic import and well ahead of tea, sugar, any particular fruit, vegetable, or chocolate product.

### 3. Origin, quality, and multiple certifications

Organic coffees have steadily expanded their export production base from about 17 nations in 2000 (ten in Latin America, three in Africa, and four in Asia) to more than **40 nations supplying the global market** (see table).

The leading exporters are Peru, Ethiopia, and Mexico. Mexico long held the top spot but in very recent years, the challenges faced by its coffee sector – related to policy, labor costs, and domestic consumption<sup>10</sup> – have led to a substantial decline in its exports. Reports of occasional organic production emerge from countries such as Cambodia, Myanmar, or Cote d'Ivoire but these are typically very small volumes and not necessarily certified.

Peru is now the strongest Organic coffee performer. It is selling about 22% of its coffee as organic with an FOB value of more than US\$ 91 million in 2007. Organic coffee sales to North America reached more than 24 million pounds in 2007 with a value of nearly US\$ 35 million – a growth rate of more than 50% over 2006 figures. The U.S. is the world's top importer of Peruvian coffees.

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<sup>9</sup> Nearly all coffee is imported to the U.S. and Canada and the U.S. commercially produces only very small quantities of certified Organic coffee in Kona.

<sup>10</sup> For more details see: Daniele Giovannucci y Ricardo Juárez Cruz. 2006. Análisis Prospectivo de Política Cafetalera. FAO: Mexico. Online at: <http://www.dgiovannucci.net/publications.htm#coffee>

**Table 1. Current Organic Producer Exporters**

<b>North and Central America</b>	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, United States (Hawaii),
<b>South America and the Caribbean</b>	Bolivia, Brazil, Colombia, Cuba, Dominican Republic, Ecuador, Haiti, Peru, Trinidad and Tobago, Venezuela
<b>Africa</b>	Burundi, Cameroon, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Rwanda, Togo, Tanzania, Uganda, Zambia
<b>Asia</b>	China, Timor-Leste, India, Indonesia, Lao, Nepal, Philippines, Sri Lanka, Thailand, Viet Nam
Note: some are occasional exporters	

Organic coffees were not always accepted by a discerning specialty coffee community. In fact, during the 1980's and 1990s they were considered likely to be inferior in quality. Their scarcity – 3 origins consistently exporting until the 1990s– made them pricey as well with premiums reaching 100% to 200% over the cost.

This scenario had changed by the turn of the 2000s with many Organics now paralleling conventional coffees in terms of quality. Accordingly, Organic coffees are commonly a part of the specialty or gourmet segments of the industry and a number of Organic coffees are now considered world class. As evidence of this, Organic coffees are consistently finalists in the Cup of Excellence competitions. Some, such as Organic producers in Brazil, Nicaragua, and Bolivia have even won the competition. The same result is reflected in one of the world's most high-value origins; The winners of the annual Kona Coffee Cultural Festival – their major cupping competition – have been Organic in five of the last seven years and this despite that only a handful of farms in Kona are certified Organic.

Reflecting market demands, between half and two-thirds of the world's traded Organic coffees are also certified to another seal. **Approximately 67% of all North American Organic imports were certified by at least one other certification.** Of these, Fairtrade was the most popular with nearly 60% of the certified Organic coffee also coming from Fairtrade producers. Nearly six percent was also Rainforest Alliance certified and relatively negligible volumes were certified to the other significant initiatives including SMBC, Utz Certified, and Starbucks C.A.F.E. Practices. Not all of the coffee was marked or registered with other certifications at import even if it came from certified producers as it may not have been bought under the terms of use for the other seals.



## 4. Growth and volume

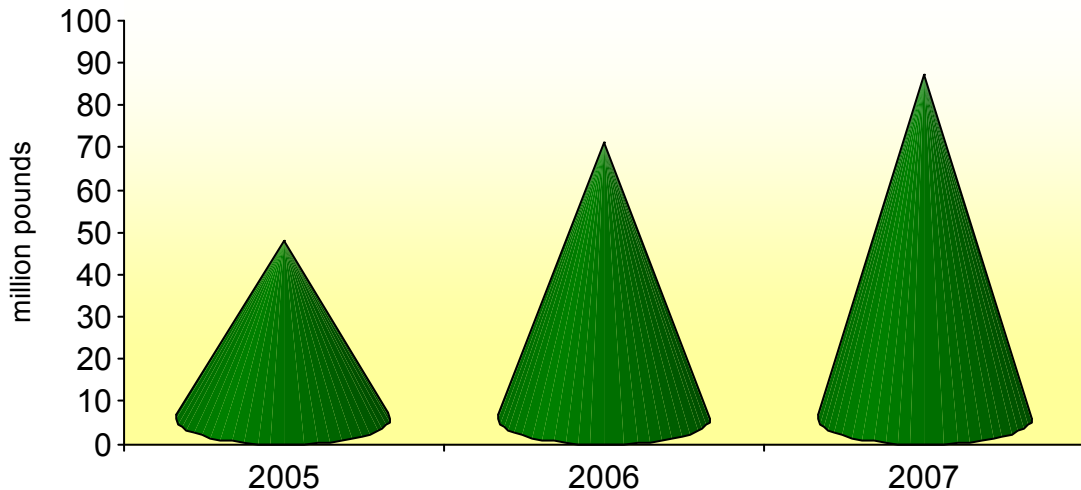
After a couple of years of slowing growth earlier in the decade, the North American Organic coffee market has posted strong growth rates in 2005, 2006, and 2007. Nevertheless, the market is still somewhat shallow and subject to significant fluctuation as one or another of the larger buyers alters their purchasing patterns. In some cases, both importers and roasters have had difficulty targeting purchasing needs, leaving some with excess overhanging inventory into the following year. Four of the firms experienced smaller volumes sold than in 2006; one of those by design as it alters its focus.

The annual growth rate for Organic green coffee imports in 2007 was approximately 25%.

As larger roaster and retail clients grow their Organic business the larger importers with broader sourcing options, lower cost structures, and greater inventory levels are clearly at an advantage. Most importers and many roasters are now willing to undergo the extra efforts required to source certified coffees. However, firm size is not a predictor of either success or failure with Organics. Though size may well matter, in Organic coffee the strongest levels of **growth are occurring at both smaller and larger firms.**

The **total imports of certified Organic coffees in 2007 reached to about 81 million pounds.** This includes green bean imports from all origins and counts Organic that are also certified with other seals i.e. Fair Trade. This does not include roasted or soluble Organic coffee imports that would likely nudge the figure only slightly higher. The 81 million pounds represents approximately 3% of the total coffee imports.

**Figure 3. North American Organic Coffee Imports**



\* imports measured as green beans

## 5. Prices and premiums

In 2007 **importers note that they paid, on average, \$1.73 per pound of certified Organic coffee at FOB cost.** The range of prices was substantial with a low of \$1.20 and a high of \$3.50. The highest range was paid for higher quality coffees and from notable origins that were in short supply during the year such as Sumatra and Guatemala.

Of the FOB price, approximately **25.5 cents per pound was paid as a premium** for Organic coffees. This represents a small increase over the reported premiums of 24.2 cents per pound in 2006.

Yet premiums are still tough to identify in terms of whether they are attributable to the certification, the quality, the availability, or the relationship between buyer and seller. Often it is some combination of these. It is also tough to determine whether the premiums actually reach farmers.

The internal processes of many importing firms do not take into account what prices their producers actually receive from them. Increasingly though, both smaller and larger firms, understand that the quality and consistency of their supply depends on the quality and consistency of these relationships. Another reason, internal corporate commitments to sustainability or social responsibility (CSR) are also driving this increasing transparency at least within the chain. The transparency of supply chains is gradually resembling that of industrial supply chains where powerful buyers are aware of the margins at every link leading to them.

Clearly, middlemen tend to thrive where transactions are opaque and most resist attempts to divulge price information. Shorter supply chains and the advent of facile and low-cost communication increasingly makes this difficult and it may be the first-movers that gain some market and reputational advantage for their increased transparency, at least when dealing with certified products. Large buyers ranging from Starbucks to WalMart already insist on this information and get it.

Several importers echo this comment on the issue of premiums: it is very difficult to distinguish certification premiums from quality premiums and that quality is the primary reason for a better differential while being Organic is secondary. This rings true across much of the industry and yet it is important to keep identifying what it is that is being paid for so that the producer understands the signals that buyers are sending via a price. One importer adds helpfully that "A well-managed coop should return at least 70% of the total price to the farmer in today's market – a good one even more."

## 6. Sustainable Coffee Trends for 2008

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Discussions with executives and buyers for a number of notable food and beverage firms generally indicate that their demand for certified and traceable products will grow overall in 2008. Many perceive this as a lucrative opportunity while some see it as just a popular small niche in which they simply have to participate, so as to not be left behind. Most firms today recognize the inexorable shift that has been occurring for a number of years away from conventional coffees at lower price points toward various differentiated concepts.

Call it gourmet, specialty, sustainable or any other name but they all still share the same concept of added value that consumers have been responding to. Much of the value is created at retail with various formats, especially cafes, driving consumer awareness. Some coffees, notably the higher quality ones and some of those that are certified also tend to create added value at origin. All of these coffees that are somehow differentiated are the primary reason for the growth of the North American market in recent years, particularly in the U.S. These coffees are estimated to represent only between 17% and 30% of the entire market (depending on how you measure it) but easily account for half of the total value and nearly all of the growth. Most differentiated coffees are growing at double digit rates.

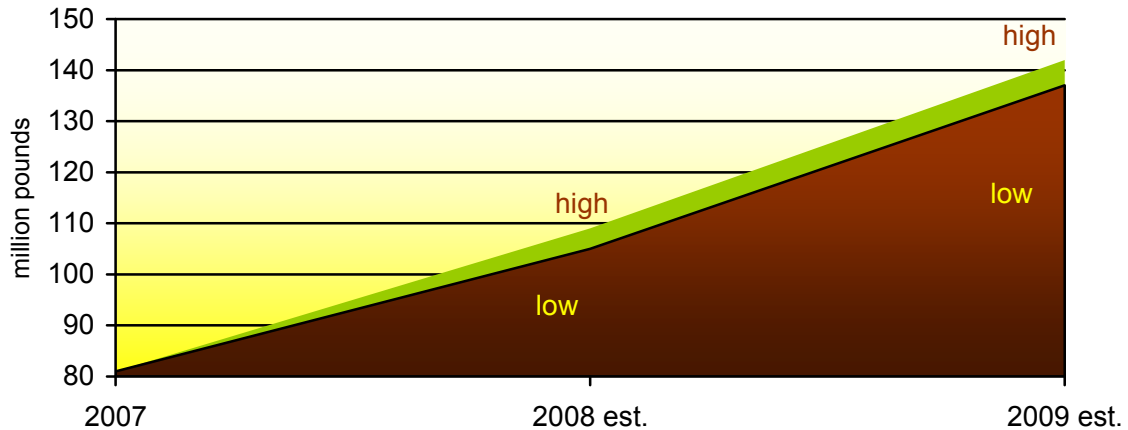
A number of industries such as beef, dairy, spinach, tomato, and pepper have been plagued by lengthy negative press in the US over the last 2 years. As food safety and ethical issues around food production are now regularly in the news, higher standards for both quality and production processes continue to be in high demand. Trends noted in a 2007 Wall Street Journal article citing the upturn in the number of cases reported to both the United States Department of Agriculture (USDA) and the U.S. Food and Drug Administration (FDA) signal that even in what is arguably one of the most regulated food systems, there will be a continuing and perhaps expanding demand for private standards such as Organics. Organics is certainly not the only product category to offer a measure of extra control or assurance but it is one of the few that commands a price premium and is among the best placed to grow due to its broad and cross-sectoral acceptance.

The earliest known survey of the U.S. Organic market estimated that 11.8 million pounds were sold in the year 2000.<sup>11</sup> The current figure represents a considerable increase of **nearly 32% annually, on average, over the past 7 years.**

Over the next year, the surveyed firms note that, on average, the volume of their Organic imports is expected to increase. The average estimate is more than 30% if we count all Organic coffees including those that are double certified. The weighted average growth for Organics is thus projected to add between 24 and 28 million pounds to the current levels. **Projected estimates for Organic green coffee imports for 2008 are 105 to 109 million pounds.** This would represent about 4% of the expected total North American market.

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<sup>11</sup> Giovannucci, Daniele. 2001. Sustainable Coffee Survey of the North American Coffee Industry. Available at: [www.scaa.org](http://www.scaa.org) or [www.cec.org/coffee](http://www.cec.org/coffee) (also in Spanish and French)

**Figure 4. North American Projections for Organic Coffee Imports**

Estimates based on range of industry projections and averaged with long-term growth rate

Other certifications are also making considerable gains in North America. While the survey does not focus on these others, some of the questions asked do provide insights into the expectations of industry leaders. The acceptance of other certifications is more visible than ever even though the market channels for them are typically much more limited, with Fairtrade being the notable exception.

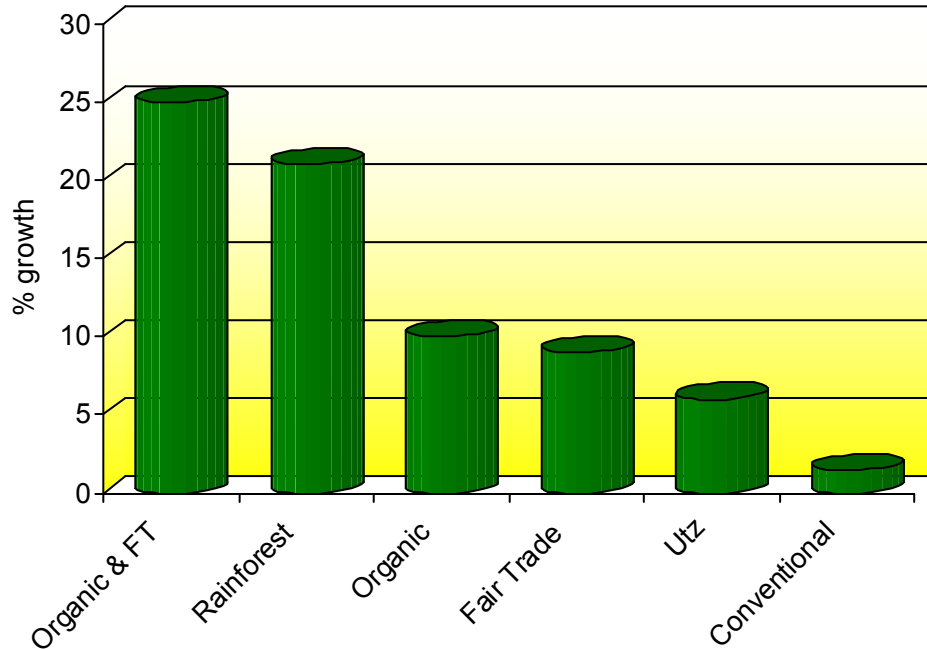
Fairtrade is one of the most popular certifications and likely the second best known to consumers. It is the most common cross-certification with Organic and in 2007 approximately 60% of certified Organic was also certified Fairtrade. From another angle, approximately 66% of Transfair registered Fairtrade imports were also certified Organic in the U.S. while about 50% was recorded in Canada. This combination of Organic and Fairtrade is expected to continue strong growth of about 25% in 2008. The same importers expect to increase their purchasing of just Fairtrade certified coffee by nearly 10% in 2008.

Rainforest Alliance has been present in the market for about a decade and, after its overseas success particularly in Europe, has been increasing its visibility and volume in the U.S. where its primary volume is with a few larger roasters. Only 6% of Organic coffees also bore RA's certification. Its overall viability has led importers to project that they will purchase nearly 21% more than in 2007. The very strong estimates of a very small number of importers are reflected in that.

Utz Certified, after opening a U.S. office has seen stronger growth in its American business. Though it will take some years for it to match its extraordinary growth in Europe, it has begun to forge alliances with new buyers and Utz's expansion to other crops such as cacao will undoubtedly improve its viability with larger U.S. and Canadian interests. The firms polled expected a nearly 6% growth in their purchasing of Utz Certified coffees. Less than 1% of Organics were also noted to be Utz Certified.

Smithsonian Migratory Bird Center (SMBC) certification was handled by a few importers yet remained a relatively minor presence in the overall market focusing on some niche areas. Less than 1% of Organics were also noted to be SMBC certified.

**Figure 5. Comparing 2008 industry projections for various coffees**



These are average survey responses and are not adjusted for volume. Starbucks and other certifiers or initiatives are not included in this projection. Conventional projection is an independent estimate.

Overall, projections for all certified coffees have been positive though somewhat less confident than in 2007. As the North American economy faces a slowdown it is not yet certain how consumers will respond to these particular types of higher-value products in the rest of 2008.