

The State of Organic Coffee: 2007 US Update

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¹ The Sustainable Markets Intelligence Center (CIMS) is a not-for-profit organization promoting sustainable business and development. It specializes in market information services related to differentiated products, including sustainable and specialty coffee.

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The State of Organic Coffee: 2007 US Update

Although the US is the single largest national market for Organic coffees in the world, there is no comprehensive tracking of organic imports by the US government or any other agency and various estimates show considerable variance. Having realistic data and an estimate of trends is important for both coffee farmers and policymakers in producing countries to help determine their strategies and investments. Our survey is conducted independently with the cooperation of nearly all of the industry's significant importers. It is provided at no cost, as a public service to the survey participants and to developing country farmers.

2006 imports from most origins showed a considerable increase – likely the greatest of the decade so far - while premiums declined only slightly from healthy 2005 levels. Double and even triple certified coffees are becoming more common as other certified coffees also showed strong growth. Projections for 2007 indicate continued growth – likely into double digits – but much more moderate than in 2006.

Context

In 2006, the global Organic food market grew by nearly 14 percent to approximately US\$37 billion. Market forecasts suggest that in five years (about 2012) this market will double in size to US\$74 billion. The US already accounts for 48% of this total retail value and its share is likely to expand. Much of the Organic production is domestic, yet imports continue to grow and have now passed the US\$2 billion mark.

After a couple of years of slowing growth, the US Organic coffee market has returned to strong growth rates in 2005 and again in 2006. Data from related industries suggests that strong growth is likely to continue. Major US Organic ingredient suppliers don't want to discuss contracts of less than three years and -- as reported in one very large-scale US survey -- some supermarket buyers are reportedly telling large farmers that they will be left behind if they don't convert to Organic.²

Nevertheless, overall household penetration of Organic products has remained below 60%, inching up only slightly over 2005 levels. 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, natural juices, and chocolate or nutrition bars. Yet the trends toward organic recognition are inescapable in much of the mainstream media and momentum is building in commercial channels including leading mass merchandisers such as Target Stores and WalMart.

A combination of three factors appears to continue driving consumer interest: growth in values-based purchasing; desire to participate in trendy/fashionable consumption; and health or food safety fears. The latter being driven by the increasing number of food safety cases in the US with more than 12,000 reported at the Federal level (combined USDA and FDA). This is double the average number of cases reported in the early to mid-1990s. Just in 2006 high profile scares have affected products as diverse as toothpaste, spinach, and meat. Entire origins (i.e. China) are operating at higher levels of scrutiny than ever and yet public demands and media coverage have grown even faster leaving them under a cloud as a result of their exposure.

Private discussions with buyers for several notable consumer products firms lead us to believe that their demand for certified and traceable products will grow as they seek to safely manage their reputational risk. Higher standards, and the products identified as such, are -- as we have stated for the better part of a decade now -- increasingly inevitable. Organics is certainly not the only product category to offer a measure of control but it is among the best placed due to its broad cross-sectoral acceptance as strong growth continues in nearly everything organic from cosmetics, to cocoa, to cotton clothing.

² Natural Marketing Institute. The 2007 Organic Consumer Trends Report. Harleysville, PA

Who was surveyed

Nearly 40 US importers of Organic coffees were identified and estimated to represent nearly all of the total US Organic green coffee imports. A structured survey was sent to all of these and telephone or personal follow-ups were conducted. While a number of smaller importers elected not to participate, nearly all of the larger ones did. As confirmed with a number of the most important Organic coffee roasters, the 24 respondents are estimated to account for **approximately a 90% share of the total market**. We have therefore based our calculations of the total on that estimation and thus added 10% to our confirmed import data to arrive at a final number.

Growth and volume

Compared to 2005 imports of green Organic coffee, the **average growth rate for imports in 2006 was approximately 56%**. Growth in 2005 was re-calculated to reflect an adjustment we received to that data. The market is still thin and subject to significant fluctuation. In some cases, both importers and roasters have had difficulty targeting purchasing needs, leaving some with overhanging inventory into the following year. Only one firm had no growth and one posted a small negative. Other less-formal surveys indicate growth coming from both smaller and larger firms.

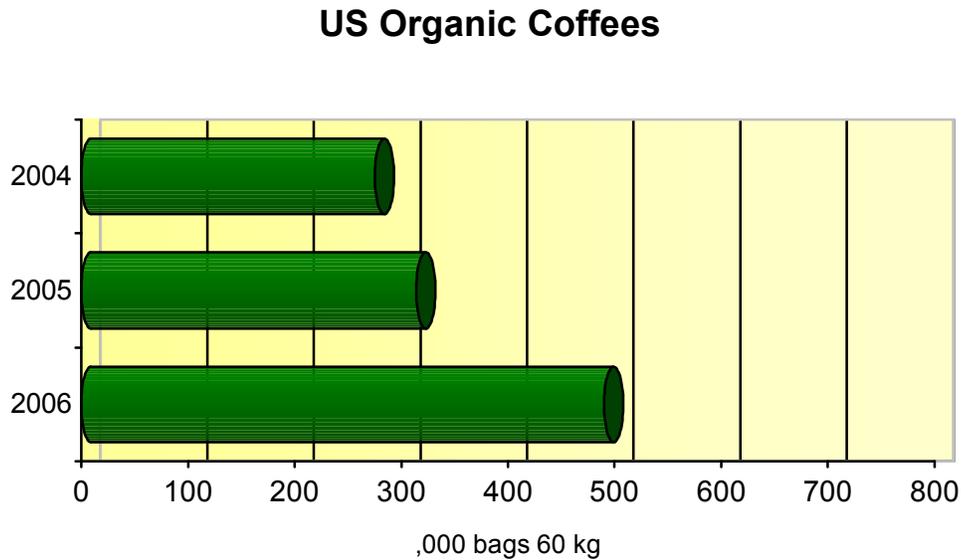
Including green bean imports from all origins and counting Organic that are also certified with other seals i.e. Fair Trade, the total **sales in 2006 reached nearly 65 million lbs or 490,482 bags** (60 kg). That represents approximately 2.5% of the total US market. The earliest known survey of the US organic market seven years ago³ estimated that 11.8 million pounds were sold in the year 2000. This represents an **increase of about 450% in 7 years or an annual average growth of nearly 33%**.

Over the next year, the firms note that **growth in their Organic imports is expected to slow somewhat to about 24%** if we count all sources of organic, including double certified and adjust this to reflect projected growth based on actual current volumes. The weighted⁴ average growth for Organics is thus projected to add approximately 15 million pounds in 2007.

³ D. Giovannucci. 2001. Sustainable Coffee Survey of the North American Specialty Coffee Industry. Available at: <http://www.dgiovannucci.net/publications.htm> (item #28) or from http://www.scaa.org/professional_tools.asp or at: www.cec.org/coffee in French and Spanish.

⁴ Calculating volume based on expected growth rate and current volume of individual firms.

Figure 1. US Imports and Industry Projections for Organic Coffees



Price premiums

Importers increasingly recognize the significant costs for producing and exporting certified Organic coffee. Nevertheless, evidence is mounting that premiums are insufficient for typical high-yield farmers to be Organic since their yields inevitably decline more than the average compensation of a premium. This is especially true for small to medium operations that lack financing and technical know-how to weather the transition. In some origins, as prices inch up for quality coffees, more farmers find it difficult to justify their organic certification from a purely economic point of view. In such cases - including areas of Central America and Mexico - a modest organic premium when their coffees are selling at \$1.30 to \$1.80 barely compensates them for the costs of maintaining an organic operation. One of the commercial challenges, as we head into a higher base-price market, will be to keep the quality-oriented farmers in Organic production.

On the other hand, smaller rustic farmers – those whose practices are close to organic and do not include intensive cultivation – appear to benefit from Organic systems both due to premiums and to the introduction of more active farm management practices that can increase both their yields and their consistency.

Experience suggests that wise producers will only select organic systems if the concept aligns their own personal values or beliefs. There are a number of benefits to organic production beyond a price premium. Yet, embarking on an organic coffee path simply for the premium is likely to frustrate many producers in the long term.

The survey attempted to capture the average premium paid for Organics and distinguish this from a premium paid for a particular coffee quality. This proved only partly successful since many firms do not make the distinction. They pay higher premiums in certain countries either because of relationships and expectations or because of a consistently higher quality coffee. In addition, in many cases an Organic premium is part of a larger premium based on regional designation, reputation of the farm or producer group, and complementary certifications such as Fair Trade or SMBC⁵. So, the Organic premium correlates to other factors, especially quality. Consequently, the more respected or better quality producers tend to receive a proportionately larger Organic premium.

Premiums continue to be strong, a trend that began in 2005. **The total premium paid by importers was reported to average US 24.2 cents per pound.** Many companies noted that their premiums ranged from US 10 cents per pound to US 60 cents per pound. The lowest reported premium was US 10 cents per pound.

The survey also attempted to distinguish between how much of the premium reached a farmer or cooperative and how much was absorbed by the supply chain. Not surprisingly, the responses were mixed. Since a grower may sell directly, via an association, through a mill or to an exporter, it is not always easy to determine who gets what. Nevertheless, in this age of increasing transparency, it is surprising how many importers are not aware or will not share the distribution of this premium they pay. Since only a few were able to respond adequately, and those that responded typically have more direct linkages to the farmers, therefore the percentage reported is not representative of the whole. Nevertheless, those that responded did note that on average nearly 90% of the premium went to the farmer. Calculating against the total premium paid indicates that an average of US 21 cents reaches the co-op or farmer when the supply chain is short and transparent – an increasingly less common occurrence for certified coffees. On the other end of the chain anecdotal evidence from the field suggests that significantly less actually ends up in the producer's pockets.

Sustainable Coffee Trends for 2006-07

A number of the respondents are also important importers of other "sustainable coffees" besides Organics. This includes Fair Trade, double certified (Organic & Fair Trade), Rainforest Alliance, and Utz Certified. When asked to project their own business expectations for the most popular "sustainable coffees" most of the respondents expect growth in the category overall but projections are less optimistic than in recent years. Fifteen percent expect either no growth or a decline in their Organic business.

⁵ Smithsonian Migratory Bird Center is a certifier of shade grown environments where coffee production must also be certified as Organic.

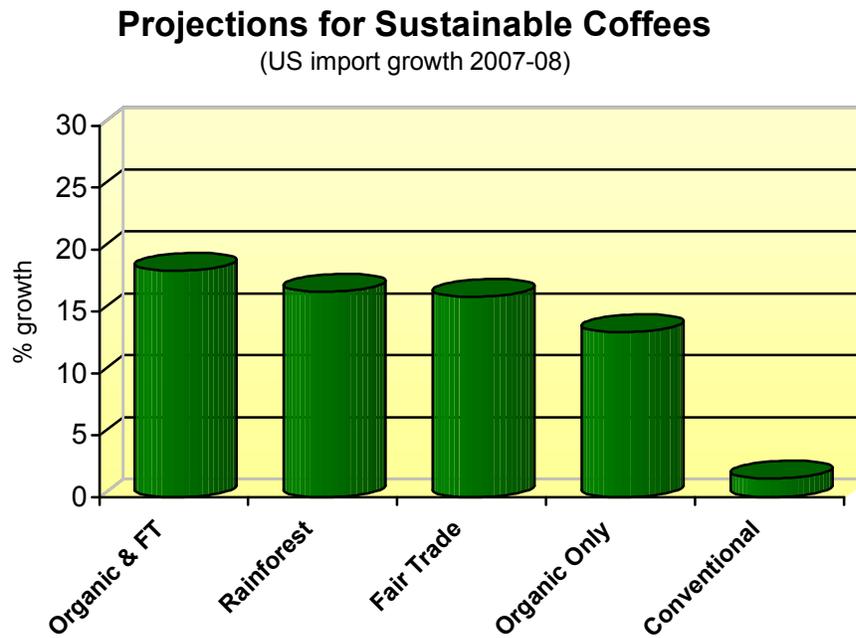
Although many of the respondents are also major importers of the certified coffees other than Organic, there are also other significant buyers in the market for Fair Trade, Rainforest Alliance, etc. that are not included in this survey. Therefore, while this survey's responses certainly reflect the expectations of the major importers queried, their responses may not accurately represent the overall expectations for other certifications.

Organic coffee usually also carries another certification. Ninety percent of the respondents claimed to import Organic coffee at least in part of which carried another seal. Organic coffee that was also certified as Fair Trade accounted for 50 million pounds and in Transfair's import estimations this means that 78% of all Fair Trade coffee is also Organic. Fair Trade's consistently strong growth in recent years - averaging 41% from 2004 to 2006 - has brought its import volumes up to the level of certified organic imports for the first time. It should be noted that we cite the measure of certified imports, not the certified US sales, since the imports have been purchased as such from producers and therefore benefit them. The official sales are likely to be somewhat lower due to shrinkage when roasted (about 19%) and since some certified coffees end up in blends or in market channels that do not convey or utilize the certification.

Double and even triple certified coffees put increasing pressure on producers and yet are becoming more common. Organic coffees **combined with other certifications are expected to grow at least as much as Organic for 2007-08**. Projected growth rates for all certified coffees are in the low double digit range with little statistical difference between them. Indications in 2007 from Fairtrade importers though hint that growth will be modest for the year.

Even optimistic industry projections for the growth of conventional coffee (1.5-2%) continue to be substantially less than the average projections for certified or sustainable coffees. For the time being at least, the only notable growth in the US market is fueled by gourmet or specialty products and certified coffees. By the close of 2006, it appears that the **combined third-party certified coffees represent nearly 8% of the US market** of green coffee imports. Their value represents an even greater proportion of the total US market. From a nearly negligible niche, at the turn of the decade they have quickly become a very significant and growing segment.

Figure 2. Comparing industry projections for various coffees



* These are average survey responses and are not adjusted for volume. Responses for Utz Certified were too few to allow for their inclusion, but those who responded were positive.

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