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Fellowship Capstone | Policy Brief

Structural Solutions for an Equitable Coffee Value Chain

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I. Executive summary

Coffee is a global commodity, so any amendments to international trade policy consequently affect the economies of countless coffee producing regions. Coffee's particularly inextricable tie to the economies of countries in Africa, South America, and Southeast Asia means that modifications to policies have a direct impact on farmers' livelihoods, consumer costs, and global price control agreements. Mechanisms such as Fairtrade certifications and price supports were created with the intent to empower farmers while shielding them from market volatility; however, imbalances in pricing power and supply chain management remain looming threats to the market. This brief examines the prevailing power dynamics in the coffee sector in an attempt to remedy power imbalances in the international coffee trade.

II. Overview

Power imbalances in trade create economic opportunity disadvantages, which undermine the sustainability of the coffee trade. Despite the existence of certification bodies such as Fairtrade which intend to create more equitable living standards for farmers, millions of farmers remain trapped in poverty while value creation and market control remain concentrated among multinational retailers and certifying bodies, even if they have intentions to appear "sustainable". Overall, the sector's market-driven structure and inconsistent regulations have led to pricing inequalities, adverse incentives for organizations, and barriers to certification for vulnerable producers.

III. History

A. Relevance

Coffee is one of the world's most popular beverages, with over 2.25 billion cups consumed globally each day; a market that supports the economies in more than 70 countries. This production volume requires that the global coffee supply chain supports over 125 million farmers, yet power asymmetries and inconsistent enforcing of fair pricing contribute to sector fragility, and 80% of farmers still live below the poverty line. Within the 12.5 million coffee farms worldwide, 67-80% are small farms located in developing countries, 22 of which are classified as Low Human Development Countries. The connection of farmers to supply chains means that without effective safety nets, equitable pricing, and supply chain reform, farmer livelihood and sector sustainability for all coffee drinkers is not guaranteed.

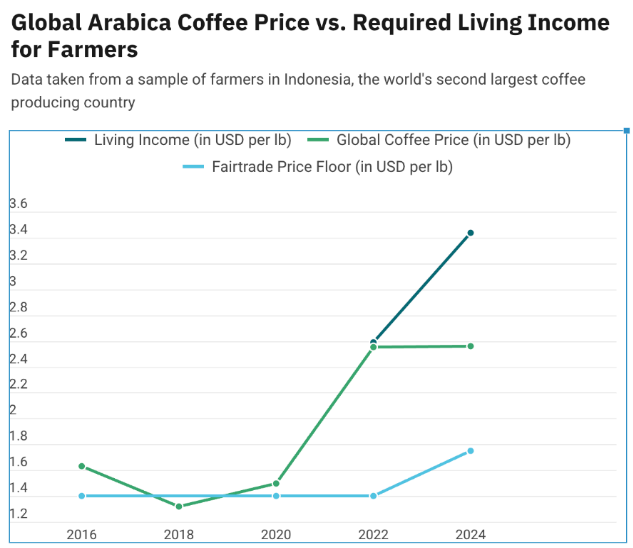
B. Current Stances

Stakeholders remain divided as producer countries and farmer cooperatives advocate for stronger marketing and direct sales, while major importers and multinational corporations (MNCs) favor acquiring the greatest margins possible. Most farmers operate plots under 5 hectares, even in critical coffee producing countries like Colombia (96% under 5 ha) and Ethiopia (90% under 5 ha), and thus these farmers have low yields, low collective organization capacity, and lack of choice, placing them in a disadvantageous position when bargaining coffee price. This means that rather than setting their own prices according to what consumers are willing to pay, prices are influenced by global commodity market prices and price floor logistics while they maintain minimal leverage over buyers or exporters. Certification efforts (ie. 4C, Fairtrade, Rainforest Alliance) and cooperatives provide some assistance and market power, but primarily just large, mechanized farms benefit, leaving out smaller farms.

On the other hand, multinational corporations like Lavazza or Nestle, along with national retail giants, focus on capturing profit within the supply chain. These retailers, as well as roasters, are price setters within the market, and fierce competition and price cutting can put pressure on their suppliers' margins. Rather than viewing social and environmental standards as a critical part of their supply chain, becoming Fairtrade or Rainforest Alliance certified serves more as a market image asset rather than a genuine attempt to reform treatment of their supply chain. Such a marketing desire is generated by Millennial and Gen-Z interests in embracing products that appear socially and environmentally sustainable, leading such products across many retail categories to show double the growth of traditional counterparts. These divided stances, or rather, divided objectives, suggest continuation of systematic imbalances in value distribution and decision-making power within the coffee industry, and economic justice is far from achieved.

C. Tried Policy

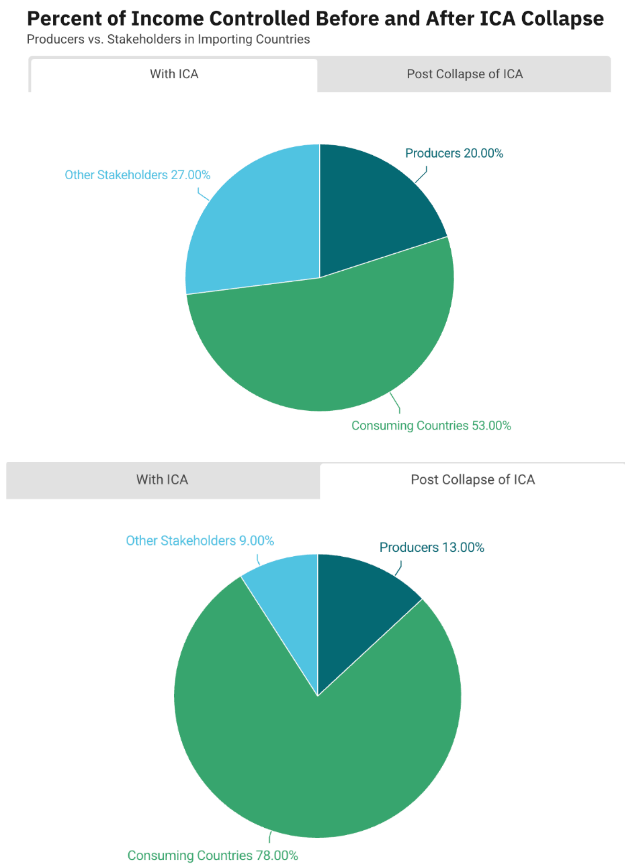
Fairtrade International, Rainforest Alliance, and similar certifications have been created in an attempt to set minimum price floors that would protect farmers from low prices. However, while these efforts have assisted in providing income stability for some farmers, they only reach a fraction of global producers. Furthermore, Fairtrade guarantees a minimum price to farmers only when the market price is low. This means that if the global market price rises above the Fairtrade price floor, farmers receive the market price but no additional Fairtrade premium for their coffee's base value.



**See living income calculation method in references

Sources: [1] Viandrito, J. Wiharja, Y. Ridwansyah, M. (2024). Living Income Benchmark and Actual Income Assessment of Coffee Farmers in Bandung District, West Java, Indonesia, *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* [2] Fairtrade Living Income Progress Report 2023. *Fairtrade International.* [3] International Monetary Fund via FRED®

This harms contracted buyers (who must buy certified coffee even when it can be sourced for less on the open market), and sellers (who, despite their certification, could achieve higher margins by selling on the open market). Additionally, from the 1960s-1989, the International Coffee Agreement (ICA) functioned as a global cartel which set export quotas in order to stabilize prices. However, after its dismantlement in 1989, there has been a lack of a global institution to monitor market volatility.



Source: Utrilla-Catalan, R., Rodríguez-Rivero, R., Narvaez, V., Díaz-Barcos, V., Blanco, M., & Galeano, J. (2022). Growing Inequality in the Coffee Global Value Chain: A Complex Network Assessment. *Sustainability*, *14*(2), 672. https://doi.org/10.3390/su14020672

Overall, power imbalances persist in the supply chain due to market structure and producer representation issues, and while grassroots and collective action are helpful in raising awareness, adopting market scale policies that emphasize price transparency and joint decision making between farmers and buyers are crucial.

IV. Policy Problem

A. Stakeholders

The interconnectedness of the global coffee trade (or any global commodity, for that matter), pulls in numerous stakeholder groups, chief among them being smallholder farmers, multinational buyers/roasters, certifying bodies, governments (of both exporting and importing countries), and consumers and advocacy NGOs. This briefing will summarize the role, concerns, and power positions of each stakeholder to craft a stakeholder role matrix.

1) Smallholder farms

Small farms, more than large plantations, are the primary producers in the coffee supply chain, cultivating 85% of the world's coffee annually. Their labor is fundamental at the start of the supply chain, and millions of farmers depend on coffee for their income. However, farmers face concerns over prices often set by market intermediaries, and these often unstable price standards consequently generate an inconsistent stream of income, making farmers vulnerable to poverty. These small farms are price-takers and lack strong collective organization, so despite their contribution to the supply chain, they receive minimal value.

2) Multinational Buyers/Roasters

Multinational buyers and roasters, including major global brands, are responsible for purchasing raw coffee beans from farms, roasting them, and branding and distributing the final product. These processes are more capital-intensive and are often located in industrialized western countries, which shifts control of price point away from farms. These western countries face an increasingly strong glare on their reputations in terms of their ability to be transparent about sustainability and receive certification, which draws certifying bodies into the chain.

3) Certifying Bodies

Certifying bodies encompass groups such as Fairtrade, Rainforest Alliance, and 4C, among others, whose standards are meant to cover economic fairness and environmental protection. Some producer groups or cooperatives acquire several certifications in order to access new export channels, but each certification has some unique or overlapping requirements which create a logistical burden. Additionally, certification standards often serve the desires of buyers who want to appeal to social justice causes rather than sector-wide needs, and although some certifications may increase the income of a farmer or cooperative, societal pressure to obtain and stack certifications can sometimes create a market access barrier for those unable to obtain them.

4) Governments

Governments are the creators and implementers of national policies, and also possess the discretion to adhere to international norms. They can also provide subsidies that shape farming practices or export competitiveness. Governments have a lot of interests within the coffee sector, such as enforcing labor rights, addressing climate issues, and ensuring compliance with certifying bodies to access a greater international export market. Government institutions maintain a high degree of power in the value chain because they are able to set regulations.

B. Risks of Indifference

If policymakers fail to address the power imbalances and insufficient pricing mechanisms in the coffee trade, the sector's foundation and the economic livelihoods of millions of people will suffer deeply.

It is likely that poverty amongst farmers in the coffee sector will persist or worsen if intermediate initiatives continue to determine the outcomes of farmers. Reviewed literature finds that such initiatives have "negative equity outcomes" for farmers, and a Geographical Indication taken from Jamaica showed that farmers had no influence over the implementation of coffee sustainability initiatives, a finding that reinforces the idea of supply chain inequities.

Secondly, if certification labels, multinational corporations, and retailers control the intermediate stages of the value chain, it will undermine the entire social and economic justice objective that many of these companies hope to obtain, causing trust in labels like Fairtrade to decline. Rather than correcting the inequalities in the value chain, this will erode the market incentive to source sustainably in its entirety.

Finally, the exclusion of minority producers from policy and market decisions creates a cycle of vulnerability for the coffee sector. As one of the world's largest export sectors, such practices have the potential to set disadvantageous standards in other commodity markets, which would prove detrimental to global trade more broadly.

C. Nonpartisan Reasoning

Because trade inequalities affect not just individuals, but also the entire chain of value, it is imperative that nonpartisan intervention takes place. The benefits of such intervention include but aren't limited to:

1) Preventing Institutions or MNCs from taking too large of a share of the market or value chain encourages fair competition and greater economic justice for smallholder farmers: The interconnectedness of the coffee trade manifests in imbalances in the sense that economic gains drive actors in such a way that it overrides the social and environmental protection goals of other organizations (ie. certifying bodies, NGOs). Without better regulatory frameworks, social and environmental initiatives may reinforce power imbalances that allow dominant multinational corporations to leverage the benefits of appearing sustainable for a competitive advantage. Developing frameworks that focus more specifically on the social welfare of farmers rather than a facade of environmental sustainability will play a great role in determining the social and economic development paths of many of the world's poorest regions.

2) Mitigating Social Unrest and Migration: Low returns on coffee production can drive migration from coffee growing communities. For example, many Latin American farmers who have accumulated debt from falling world prices and business decline have opted to migrate to countries like the United States, where a 2019 border survey of Honduran coffee farmers found that 6% of unauthorized migrants were fleeing from a coffee farming area. These same farmers reported earning merely $0.62 for coffee that cost over $0.80 to produce, despite the fact that the world price was $1.41 in that period. Creating a framework that ensures that all farmers receive compensation for their products at or above the production cost will reduce the likelihood of economically influenced migrations and increase stability in production regions.

IV. Policy Options

Strengthening the living and income guarantees as set by certifying bodies by decentralizing the certification process

This policy option serves to expand the scope of living coverage guarantees, and will be demonstrated primarily through possible changes to the Fairtrade pricing structure, as this is a dominating body in certifying production alongside 4C and Rainforest Alliance. The traditional model of International Fair Trade posits that after a consultant visits a given organization, that organization is approved and accepted into the Fairtrade system provided that they meet some preliminary requirements. This is the most expensive operating model; however, Fair Trade also offers a "beginners" entry model, in which an organization can register themselves, but must be audited by a third party organization. This model is slightly cheaper, but more burdensome administratively than the International model. One solution is to decentralize certification approaches in order to render them more locally managed, thus providing smaller producers the ability to bargain for decreased registration fees and streamlined administrative processes. Such a policy option has been piloted in Colombia through the organization La Red, an association of small coffee producers. Its structure consists of formal documents outlining its operational regulations, which also manage the network of committees, managers, and grassroots groups within the organization. By organizing in this way, the once small producers became a unified actor able to more effectively negotiate terms with large players. A survey taken of La Red members also indicated that members of the local cooperation found that distributive fairness and interactional fairness ranked 4.23 and 4.66 out of 5, respectively. This reveals that giving greater agency to local communities has a vast impact on negotiation ability with large firms, which can aid in price setting without the administrative barriers of becoming certified. Such an organizational structure can be replicated elsewhere by more closely integrating with local communities, which could involve the creation of worker committees and enabling democratic participation in management of trade premiums. A shift to such a structure can be obtained if governments ensure legal recognition for local assemblies, allowing them to negotiate collectively and access export markets directly.

Incentivize large retailers to adhere to measurable living standard benchmarks

Although Fairtrade does provide the benefit of ensuring a price minimum for coffee, which currently ranges from $1.25 to $1.80 per pound depending on bean quality, it isn't guaranteed that farmers receive all of this value, and the difference in price between producers and buyers remains very low despite certifications. In 2019, the New York Coffee "C" Futures price which determines the cost between buyers and sellers achieved a historical low of $0.89, and has since rebounded to an all time high of $3.90 in 2025. However, this increase in price is not indicative of increasing market equality, but rather increased market demand as coffee inventories fell to a four year low this week, and Brazil, a major growing region, is facing an intense rainy season detrimental to world arabica coffee crop. This means companies still earn a comparative percentage of the value on each sale. Thus, my recommendation to ensure a stable living standard and price benchmark is to implement due diligence legislation that requires both retailers and importers to trace a minimum income level in their supply chain. Although no country has fully implemented coffee-specific due diligence legislation, there are many existing large scale directives that could feasibly be adopted for this purpose. For example, the EU Corporate Sustainability Due Diligence Directive encourages companies to contribute to an adequate standard of living wage for employees and smallholders. A similar policy could be adopted on a country by country basis, or even at an international institution level. To incentivize adherence to such a policy, governments, NGOs, or certifiers themselves can provide procurement contracts or tax breaks, and because many consumers feel moral obligations to better global living standards, more likely to be adopted. In order to achieve this, published benchmarks and transparent purchasing data are also crucial.

IV. Conclusion

This brief explored the complex trade imbalances in the international coffee trade, specifically looking into the certification access challenges faced by small farmers, market price volatility, and the limitations of existing certifications in both their accessibility for farmers and the adverse incentives they create for corporations. After analyzing stakeholder dynamics and existing policy, decentralizing the certification process towards farmers in order to streamline administration and prevent adverse incentives from large corporations, and implementing due diligence legislation targeted towards retailers are the most viable options. However, of the two, the most implementable solution in its scope is to the latter due diligence legislation path, as altering the structure of each certification body to similar standards would be logistically difficult and require a long time horizon. The proposed due diligence plan would be approved by the country and enforced internationally through an international institution such as the United Nations Commission on International Trade Law.

That being said, although creating a more equitable coffee trade involves navigating many market and institutional barriers, effective change is possible by enhancing transparency and prioritizing inclusion of marginalized producers. Achieving such a just coffee sector requires the collaboration of all stakeholders in maintaining a commitment to living income standards. Real progress will depend on disciplined action, and with persistence the industry can progress towards lasting economic justice.

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** Coffee farmer 2023 living income calculated by taking the annual value of 2023 monthly living income for Javanese families and dividing it by the average annual coffee yield for Javanese coffee farms per year in order to find a breakeven metric