

The Development of Sustainable Business Practices in the European Coffee Market and its Impact on Brazilian Producers

Christopher Schwand¹, Thiago Riedl-Wagner¹

¹IMC FH Krems

ABSTRACT

Nowadays sustainability issues are more visible than ever. Climate change, economic and social inequalities raise the tensions of international political debate. The coffee sector is a pioneer on the implementation of sustainable business practices (SBPs), thus playing an important role in mainstreaming sustainability concepts. From the mid-nineties until the first decade of the 21st century, the European demand on coffee products associated with sustainable values associated have experienced strong incensements, hence price and demand increased. However, in the second decade, sustainable coffee demand and prices started to stagnate and drop. From a market perspective, Europe constitutes the main market for coffee, adding the most value with roasting, processing, retailing, and re-exporting coffee products. On the other side, Brazil, as the main producer is struggling to cope with long-term low prices while global warming effects are increasingly affecting production areas. Facing those premises of rising sustainable practices, persistent market disequilibrium in supply and demand and new dynamisms in overall market diversification and consumption, as well as institutional and environmental changes, this study investigates the last 20 years of the development of SBPs in the coffee sector and how they are transforming the European coffee market and coffee production in Brazil.

Keywords: Sustainability, sustainable business practices (SBPs), Brazil, coffee producing countries

1. INTRODUCTION

Coffee is important. Growing coffee feeds a 100 million people, it presents a key commodity in global trade, still problems are a-plenty. Nowadays sustainability issues are more visible than ever. Global warming, economic and social inequalities rise the tensions of the political debate. The international coffee sector is a pioneer on the implementation of sustainable business practices (SBPs) playing an important role in sustainability concepts.

Under the pressure of consumers, governments, international institutions, and European companies are making efforts to align their organizational goals to environmental, social, and economic sustainability principles. Those principles of sustainability open a wide range of new opportunities for new business strategies. Business activities in developed markets are traditionally dynamic, pragmatic and often proactive, adapting quickly to the consumer's needs and regulations. By doing so, traditional business models are translating sustainability concepts into practices, namely elaborating, or reformulating their day-to-day proceedings to have less impact on the environment, on social and economic issues. [1]

In the coffee sector the implementation of those models is voluntary. SBPs are business or third-party self-regulated. Organic plantations, eco-friendly production practices, or fair-trade market transactions, are examples on how companies are integrating sustainability principles to their business. These practices normally constitute codes of conducts for actors in the supply chain and certified through third parties (mostly NGOs) auditors. Sustainability certification labels are well stated on the packages of final products like 4C, EU-Organic, Fairtrade, UTZ - Rainforest Alliance.

From the mid-nineties until the first decade of the century, the European demand on coffee products associated with sustainable values associated have experienced strong incensements, hence the price premium. But the curve has been flattening. On the other side, prices for green coffee, as they leave the exporting country, have been gradually falling since the market liberalization of the sector in 1989, achieving record falls, known as the coffee crises from 2002 until 2005. [2] This is occurring mainly because of overproduction, but also because of price volatility issues due to market liberalization. Consequently, the main part of the sustainable certified production is sold as non-certified coffee in mainstream market. While the global demand for coffee beans is rising, coffee production is strongly exposed to threats associated with climate change [3]

Turning to labelling organisations, the way certifiers have been organizing themselves has changed fundamentally. While originally starting out as small NGOs and civil society initiatives, in the past ten years the infrastructure is made up by multi-stakeholders organizations, which have become the institutional structure for certifications. NGOs, civil society, companies, farmers use these platforms to monitor and self-regulate the sustainable/certified coffee sector. They elaborate, create, implement, and evaluate SBPs together, often integrating government institutions.

From a market perspective, Europe constitutes the main market for (sustainable) coffee. Therefore, European market actors have the power to set high quality standards and they can add the most value with roasting, processing, retailing, and re-exporting coffee products as 90% of exports from producing countries are made on green beans. Brazil, on the other hand, is the main producer and is struggling to cope with long-term low prices, issues with certification of sustainable standards among its sustainable farmers, with rising costs of production, as well as overall economic and political instabilities. [4]

Anticipating further shifts of demand in general and speciality coffee markets [5], the question of the impact of SBPs on growing coffee in producer countries such as Brazil arises.

2. RESEARCH FOCUS AND METHOD

Facing the rise of sustainable practices, persistent market disequilibrium in supply and demand and new dynamisms in overall market diversification and consumption, as well as institutional and environmental changes, this paper investigates the last 20 years of the development of SBPs in the coffee sector. As the SBPs change the European coffee market, the key research question addressed is: "What are the impacts of SBPs on Brazilian producers?"

A semi-systematic approach was adopted as there is an abundance of literature on the

topic (eg. reports from international institutions). The focus was put on publications of the last 20 years and strictly related to the topic. The review tried to narrow publications on sustainable practices and coffee production and consumption.

Building on the literature review, a Delphi study delivered feedback and a consensus on open or unclear issues from the experts. A panel of 8 experts (1 small producer, 1 cooperative, 1 roaster, 3 NGOs, 1 researcher, 1 gov. institution out of 38 invited across categories) in this specific field was selected for the study, a research diary was maintained to monitor progress and for documentation purposes. The checklist created by Linstone & Turoff [5] was utilised to avoid mistakes and pitfalls when formulating the questions for the Delphi study, in which focus was put on:

- a. how the development of SBPs transformed the European coffee market
- b. the role of traders and prices
- c. linkage aspects between producer and consumer
- d. the impact on Brazilian coffee producers

A qualitative text analysis was carried out to analyse the data.

3. FINDINGS

SBPs as drivers of changes bringing diversification, competition and visibility for the coffee market have been helping raising demand for coffee products in Europe until 2015 and maintaining the level ever since. Parallel to this development certification process and practice changed. This is well documented in quantitative data [4] and in academic literature [2] with the importance underlined in findings of the Delphi study.

The rise of traceability conforms a shift from mission driven to a market driven approach of SBPs, which was first documented by Reynolds [7], and the findings confirm this trend with the “ability to trace coffee” throughout all stages of the supply chain strongly supported by technological development (QR codes, Blockchain).

The disparity of power surfaces in both literature analysis [8] and Delphi study. The buyers power augmented by the trader’s role results in an existential crisis in which sustainable coffee production provides a business case for organic growth, and the implementation of SBPs proving crucial for the development of the sector as analysed by eg. TechnoServ. [9]

The Brazilian ability to respond to the European demand is registered in quantitative data reports by ICO and European Coffee Federation as well as in academic literature, signifying the impact of SBPs and Voluntary Sustainability Standards (VSS) adoption [10].

Looking at the coffee industry, there is widespread (+) to universal (++) agreement that:

- a. certification costs are too high for smallholder farmers (cannot afford SBPs)
- b. SBPs implementation has been driving change and demand (++)
- c. certifications structurally changed the global coffee market (++)
- d. negative (+) standardization process of the SBPs (++)
- e. multi-stakeholder transformation is without alternative (++)

- f. traceability is key (+)
- g. traders play a crucial role (+) and increasingly embrace SBPs (+)
- h. SBPs drive consumer prices (++) , buyers are dominant power (++)
- i. technological development plays crucial role (++)
- j. producer associations, cooperatives, group certifications are key (++)
- k. local demand (+) and direct exports (+) present opportunities for Brazilian farmers.

4. DISCUSSION

The study shows suggest that Brazil is well-positioned to adapt to European (and other) sustainable coffee demand due to its strong market power, production efficiency, and innovative production techniques. However, small farmers cannot afford to implement SBPs, which limits their ability to achieve superior quality standards and results in lower prices for their products in the international market. The expansion of the domestic market and the implementation of new technologies such as blockchain traceability systems offer opportunities for small farmers to capture new market share and sell their coffees directly to coffee shops.

To meet the challenges, small farmers need to form producer associations and cooperatives, seek partnerships, group certifications, and long-term partnerships with traders, and improve their governance performance.

SBPs are a means to an end that can be exercised especially by buyers and traders to establish pathways to the future for the coffee industry.

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