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Danish Alliance for Responsible Coffee Baseline Report 2022

Final report

Prepared for Ethical Trade Denmark

November 2023

Efeca Project Number: P185

Danish Alliance for Responsible Coffee

Baseline Report 2022

Prepared for Ethical Trade Denmark

For and on behalf of Efeca Ltd

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Executive summary

The global coffee sector is facing significant challenges to ensure a sustainable future, including the impact of climate change on production areas, financial inequality within value chains, and increasingly stringent requirements for traceability within complex supply chains.

Launched in January 2023, the Danish Alliance for Responsible Coffee has been established to facilitate collective action for a responsible, climate-resilient and more equally distributed value chain. Operating in one of the major per-capita consuming countries in the world, it brings together relevant Danish actors in a binding collaboration to transform the coffee sector for the better.

This report establishes a progress baseline for the Alliance and its members in relation to a variety of indicators that members have reported on through a questionnaire, generally based around three of the Alliance's focus missions: regenerative agriculture and climate change; living income and better livelihoods; and accountability in the value chain. Throughout the report, where indicators related to proportions of coffee that meet certain criteria are discussed, the analysis often refers to the number of companies that have reached a certain level of progress, as opposed to the relevant estimated percentage of the total Alliance volume that meets relevant criteria. This is because there is a large range of company sizes present in the Alliance membership, so information on indicators related to the whole volume of the Alliance is heavily skewed by the small number of large companies as opposed to painting a picture of the Alliance as a whole. Therefore, presenting the number of companies that meet certain levels of progress is often a more granular indicator of progress.

Overall, the total volume of coffee sourced and reported by Alliance members in 2022 was 19,049 tonnes, representing 30-40% of Denmark's total import volume. 85% of the total Alliance volume is from known countries of origin.

To take action on ecosystem restoration and climate change, members are taking actions such as sourcing deforestation-free coffee (12 of 17 reporting companies importing coffee from producing countries were able to report a figure for the level of deforestation-free coffee, with 6 companies reporting over 75% of their volume being deforestation free), and assessing scope 3 emissions within their supply chains (44% of companies reported they had calculated scope 3 emissions for at least some of their supply chain). Companies are also sourcing coffee produced in agroforestry systems, and while reporting precise figures for this subject was more of a challenge for companies (with many unable to report the crop systems their coffee is sourced from), three companies were able to report that over 75% of their coffee volume was produced in agroforestry systems.

In an effort to ensure a living income in their supply chains, members are using mechanisms including certification and direct trade schemes, with 32-54% of the volume reported by members being covered by a third-party certification and three members reporting over 75% of their coffee as enabling a living income for producers. Progress on traceability and accountability is reflected by almost three-quarters of respondent members who are sourcing coffee being able to trace at least 75% of their coffee to farmer level.

This baseline report is an indication of Alliance progress based on the questionnaire, which is a self-reporting tool, and establishes where some key progress gaps currently lie. For many of the survey questions, there can be several interpretations, for example around how to define scope 3 emissions, living income, and agroforestry. In many cases, a high proportion of members were unable to provide information about different progress indicators (for example, of seven questions in the survey related to volumes of coffee contributing to mission 1, four questions had less than half of companies able to give an answer), suggesting that support to members in obtaining relevant information and achieving oversight of progress is an initial next step that can ensure immediate progress. Specific gaps were identified by members too, including a lack of clarity and understanding from some around how compliance with the incoming EU Deforestation Regulation can be achieved by the sector.

But this report also clearly demonstrates where the Alliance can best add value moving forward. Members greatly value the Alliance as a platform for knowledge sharing and collaboration, suggesting it is in a strong position to support its members in overcoming barriers that have been identified. Collective action throughout the supply chain is essential if the social and environmental challenges faced by the sector are to be overcome, and the Alliance is providing a mechanism through which this can be achieved.

1   Introduction

1.1   Responsible coffee

Denmark is one of the highest per-capita consumers of coffee in the world, with the average Danish consumer drinking four cups a day. It is not alone in developing a taste for this popular commodity – according to the International Coffee Organisation (ICO), the world consumed over 168.5 million bags of coffee during the 2021-22 period; a significant increase from five years previous, with coffee farmers producing almost 160 million 60-kilo bags during 2016-17, which at the time was a record crop.[1] This insatiable appetite for coffee, particularly in markets such as Europe, has not come without a cost where it is produced – in every meaning of the word.

Quite literally, a major issue in the coffee sector is the cost of production not being matched by sufficient income for producers, all in an effort to keep prices down for those buying their morning americano halfway across the world. Other serious social issues are also rife in parts of the sector, including the presence of exploitative and child labour[2]. Coffee production can also come with a high environmental cost, with the expansion of growing areas leading to deforestation and conversion of natural ecosystems. Research from WRI identified expansion of coffee to be one of the most significant drivers of commodity-driven deforestation from 2001-2015, with coffee cultivation replacing around 1.9 million hectares of forest – hence its status as a 'forest risk' commodity[3].

With deforestation a key driver of climate change, coffee is becoming locked in a feedback loop that could have hugely detrimental consequences for the market. Climate change is making existing growing areas unsuitable for production, with the estimated suitable growing area for coffee expected to decrease by 50% by 2050[4]. A halving in suitable growing area, coupled with an expected doubling in demand within the next 30 years, may create a perfect storm with consequences for further deforestation, accelerated global warming and increased prices[5].

However, recognising these significant challenges, companies across the sector are taking action to support responsible production and consumption of coffee in a way that addresses these issues and mitigates their impacts. Projects to address the social and environmental impact of coffee often focus on increasing, diversifying, and making more secure the income of farming communities, including through paying more per kilo of produced coffee, and encouraging resilient agroforestry practices to boost yield.

Such projects are ongoing at multiple scales, being led and funded by local communities, governments, civil society, and industry, or through multistakeholder arrangements. International companies support such projects through funding or other partnerships, including by buying coffee that is certified to have been produced by certain standards, and is sold by

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[1] Coffee Barometer 2018, https://hivos.org/assets/2018/06/Coffee-Barometer-2018.pdf

[2] According to the Sweat and Toil app from US Department of Labor

[3] Global Forest Review, and World Resources Institute, 2021, https://www.wri.org/insights/just-7-commodities-replaced-area-forest-twice-size-germany-between-2001-and-2015

[4] IDB, *The Most Unexpected Effect of Climate Change*, https://www.iadb.org/en/improvinglives/most-unexpected-effect-climate-change#:~:text=But%20this%20is%20likely%20to,become%20hospital%20to%20the%20crop.

[5] Danish Alliance for Responsible Coffee, *Agreement Paper*, 2023, https://etiskhandel.dk/wp-content/uploads/Agreement-paper_Danish-Coffee-Alliance.pdf

farmers for a premium.[6] The leading certification schemes covering sustainable production practices and a chain of custody are Fairtrade, Rainforest Alliance and UTZ (the latter two of which now run in parallel). In terms of global coverage of production, jointly these covered 8.24% in 2020, 8.53% in 2021 and 12.45% in 2021[7].

At a multinational level, companies have taken action including through the 2019 London Declaration on Coffee, through which 12 major companies (supported by various industry and civil society groups) committed to address issues around low prices for farmers, price volatility and long-term sustainability of production.[8] At a national mass-market level, companies are taking action individually and through industry platforms – including, in Denmark, the Danish Alliance for Responsible Coffee.

Before providing background on the Danish market and introducing the Danish Alliance in more detail, the remainder of this introduction provides further context on the global market and important regional developments at the European level.

1.2   International context

Coffee grows under specific conditions, and can be cultivated as an economically viable crop within the tropics, usually at altitudes between 800-2,200m.[9] While there are 124 species of coffee, we rely on just two for 99% of our consumption volumes: *Arabica* and *Robusta.*[10] However, as referenced later in the report, other more climate-resilient species may play an increasingly important role in the future.

The main coffee production regions are Central America and northern South America, Central and East Africa and Southeast Asia. Amongst these, Brazil is the largest producer, followed by Vietnam, Colombia, Indonesia and Ethiopia. Figure 1 below shows the production volumes of these main producers in 2020, with global production of coffee beans equal to 11.9 million tonnes.

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[6] https://www.cbi.eu/market-information/coffee/tips-go-green

[7] Fripp et al., 2023, *Traceability and Transparency in Commodity Supply Chains for Agricultural and Forest commodities*, https://doi.org/10.46830/wrirpt.22.00156 (See appendix G on certification coverage).

[8] https://www.worldcoffeeportal.com/Latest/News/2019/Major-coffee-firms-sign-up-to-historic-ICO-susta

[9] https://halo.coffee/blogs/discover/coffee-regions-a-quick-guide-to-coffee-growing-regions

[10] Coffee Barometer 2023, https://coffeebarometer.org/documents_resources/coffee_barometer_2023.pdf
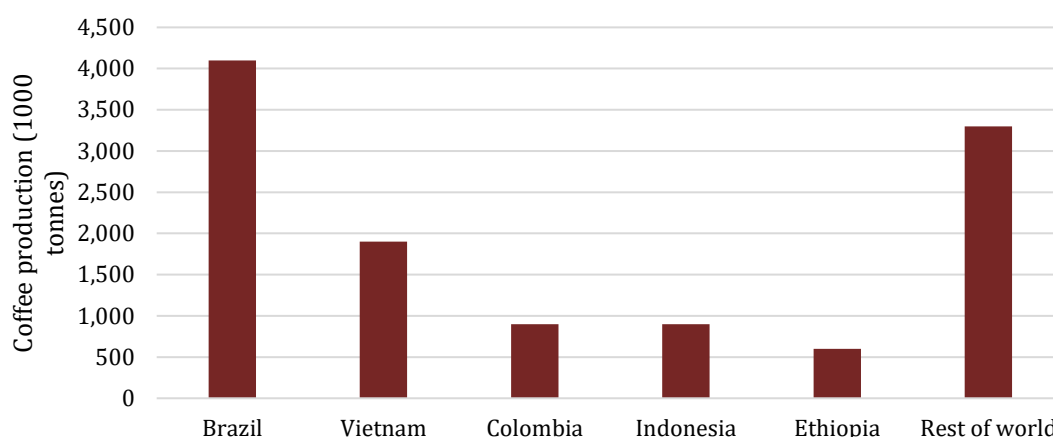
Figure 1   2020 global coffee production volumes

The principal international organisation that coordinates action by governments to support coffee production is the International Coffee Organisation, which acts as a forum for producing and consuming countries to cooperate on the promotion and development of the coffee market, research and support of good practices, and increasing of sustainability in coffee production. A significant non-governmental player in coordinating global efforts to improve the social and environmental impacts of coffee production is the Global Coffee Platform, a multistakeholder initiative composed of multinational corporations, NGOs and certification bodies, as well as national associations and federations.

At an international company policy level, the importance of protection and restoration of forests continues to grow, in part due to the increasing focus on scope 3 (supply chain) emissions, which include those from land use change and degradation. Companies have been taking action on their carbon emissions, including by signing up to the Science Based Targets initiative, which includes a requirement to set zero deforestation targets for no later than 2025 in its FLAG (Forest, Land and Agriculture) guidance.[11] Complementing private sector action, governments are also increasingly stepping up, for example through the Forest, Agriculture and Commodity Trade (FACT) Dialogue and Glasgow Leaders' Declaration on Forests and Land Use, both launched at the climate change COP26 in November 2021, the latter of which committed 140 countries to halt and reverse forest loss and land degradation by 2030.

1.3   European context

Europe has one of the highest per capita coffee consumption volumes in the world, but is not a producing region. As such, it imports large volumes of coffee. There is a large diversity of company types present in the coffee value chain, from multinational consumer goods companies and retailers such as Nescafé or Aldi, to numerous small-scale specialist roasters and cafés.

The majority of coffee imports are of green coffee, and there is a large roasting and further processing industry in Europe. The largest importers and processors of green coffee are Germany, Italy, Belgium, Spain, Switzerland and France, with comparatively little further trade

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[11] https://sciencebasedtargets.org/sectors/forest-land-and-agriculture

within Europe before being processed – 86% of green bean imports across Europe are directly from producing countries[12] (see figure 2 below).
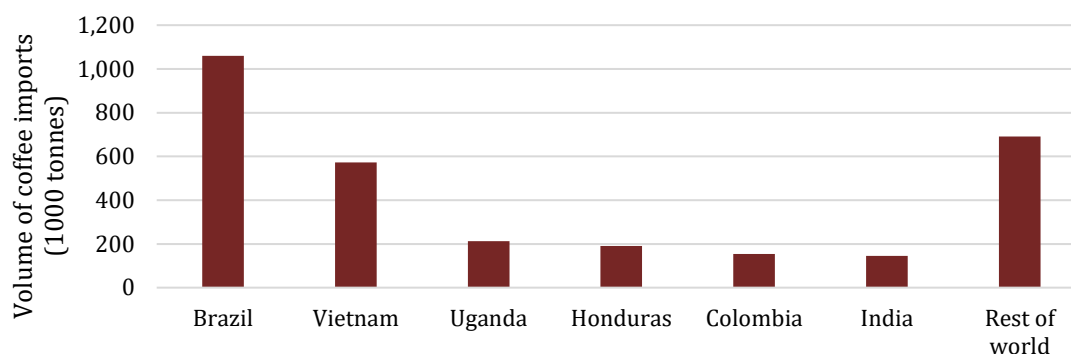

Figure 2   Sources of Europe's imports of coffee[13]

There are coordinated efforts across the EU to improve the environmental footprint of coffee consumed there. The largest organisation representing the coffee industry within the EU is the European Coffee Federation, which hosts a page listing operating coffee sustainability schemes from across Europe.[14]

Europe is also experiencing a changing regulatory landscape, with legislation being introduced in the EU that will require companies to take action on environmental and social sustainability in their supply chains. For example, The Corporate Sustainability Due Diligence Directive, adopted by the European Commission in 2022, will require companies to address adverse impacts in their value chains within and outside of Europe.[15] But perhaps the most significant regulatory development to emerge in Europe is the EU Deforestation Regulation, which has become a significant driver for action for many companies operating in supply chains of forest risk commodities like coffee. These companies will need to take steps to ensure they are not importing volumes linked to deforestation.

1.3.1   EU Deforestation Regulation

The EU Deforestation Regulation (EUDR)[16] entered into force on 29th June 2023, and will become applicable for large companies from 30th December 2024 and for micro and small enterprises from 30th June 2025. The EUDR prohibits companies from placing products on the EU market (or exporting them) that are linked to deforestation, and requires companies to collect information including geolocation of product origin back to farm level.

As noted already, coffee is one of the commodities within scope of the EUDR – the HS code 0901 ('coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes

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[12] https://www.cbi.eu/market-information/coffee/what-demand

[13] Bosselmann, A. S., & Dolmer, S. E. N. (2023). *Monitoring responsible and deforestation-free agricultural commodities in Denmark 2022: Status on implementation of the action plan against deforestation.* Department of Food and Resource Economics, University of Copenhagen. IFRO Report No. 2023/04

[14] https://www.ecf-coffee.org/about/sourcing/

[15] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

[16] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1115&qid=1687867231461

containing coffee in any proportion'). Fundamentally, this means that any coffee being imported into or exported from the EU will have to prove via a due diligence statement that it is deforestation-free and produced in accordance with legislation of the producing country. In order to prove this, companies will be required to collect information including the geolocation of the product origin back to farm level. Figure 3, a graphic representing the coffee supply chain requirements in order to meet the EUDR (presented previously by the Danish Ministry of Environment to the Alliance), visualises this process.
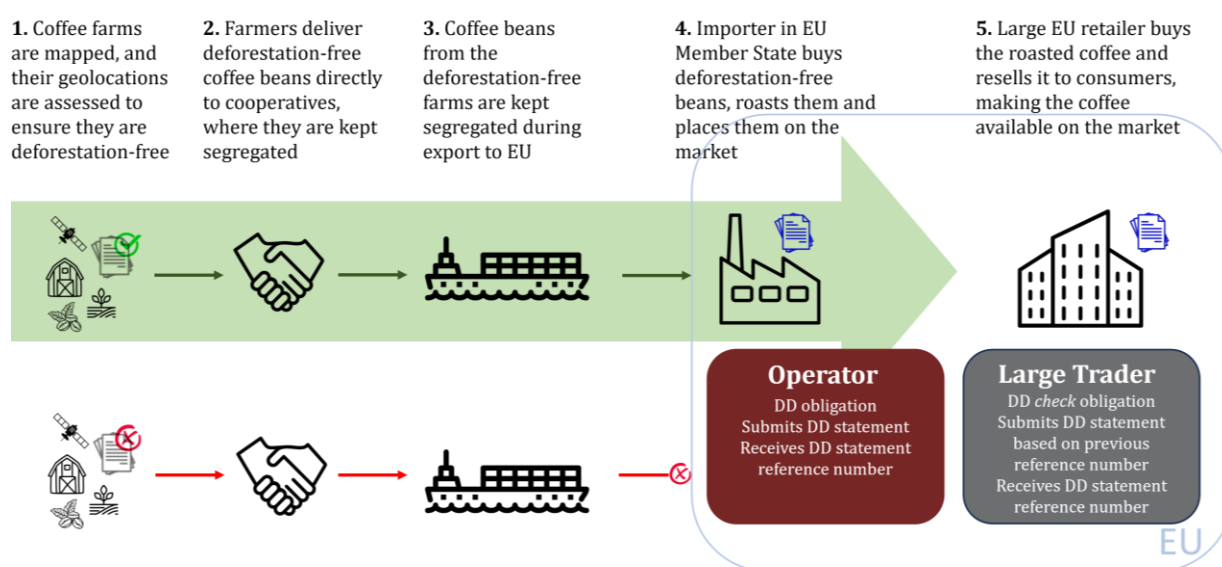

1. Coffee farms are mapped, and their geolocations are assessed to ensure they are deforestation-free

2. Farmers deliver deforestation-free coffee beans directly to cooperatives, where they are kept segregated

3. Coffee beans from the deforestation-free farms are kept segregated during export to EU

4. Importer in EU Member State buys deforestation-free beans, roasts them and places them on the market

5. Large EU retailer buys the roasted coffee and resells it to consumers, making the coffee available on the market

Operator
DD obligation
Submits DD statement
Receives DD statement reference number

Large Trader
DD *check* obligation
Submits DD statement based on previous reference number
Receives DD statement reference number

EU

Figure 3   **Representation of EUDR application in a coffee supply chain (source: Danish Ministry of Environment presentation)**

The impact of this legislation on the coffee sector is likely to be significant due to its reliance on smallholder production, meaning that millions of farms will have to be mapped by downstream companies required to provide geolocation information of the origin of their volumes. Smallholder production further poses challenges to compliance with the regulation due to potentially lower access to data verification and services which may increase the costs of the required geolocation.[17] Companies who have already invested in traceability and have existing no-deforestation policies are likely to be more prepared to meet EUDR requirements, although national traceability systems in producing countries may be rolled out to support compliance for buyers, as seen in Ghana's cocoa sector.[18]

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[17] Roast Magazine, "Eight ways the EUDR is likely to affect coffee supply markets", in *Daily Coffee News*, July 26 2023
https://dailycoffeenews.com/2023/07/26/eight-ways-the-eudr-is-likely-to-affect-coffee-supply-markets/

[18] S&P Global, Global Impact of the EU's anti-deforestation law, August 31 2023
https://www.spglobal.com/esg/insights/featured/special-editorial/global-impact-of-the-eu-s-anti-deforestation-law

2 Denmark coffee imports

The data in this section was provided by the University of Copenhagen, based on the figures in their report 'Monitoring responsible and deforestation-free agricultural commodities in Denmark 2022'[19]. Data is for the year 2022.

Denmark has one of the highest per-capita rates of annual coffee consumption in Europe, with consumers drinking an average of four cups a day. In 2022, Denmark imported a total of around 48,000 tonnes of coffee and coffee products, requiring a total of over 63,000 tonnes of green coffee beans.

The majority of Denmark's direct imports are from other European countries, with the closest neighbours Germany and Sweden accounting for more than 40% of direct imports (figure 4). As these countries are not coffee producers, it can be assumed that producer countries that dominate exports to Europe (such as Brazil and Vietnam) are also major exporters to Denmark. The majority of imported coffee is roasted (45% of the total), or otherwise processed into extracts or concentrates (30% - see figure 5). This differs from the breakdown seen at a Europe-wide level, with the vast majority of total EU and UK imports of coffee being of raw coffee, and smaller proportions of roasted coffee or extracts and concentrates. Denmark imports a smaller amount of raw coffee (25% of the total), which may be directly from producing countries such as Brazil, Colombia or Uganda.
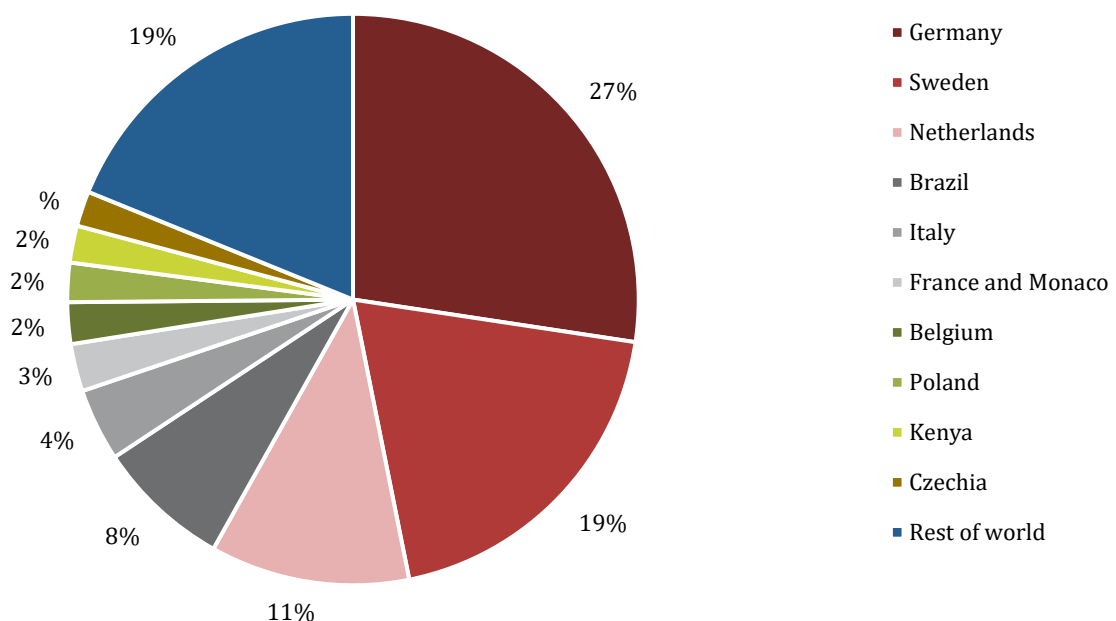
[19] Bosselmann, A. S., & Dolmer, S. E. N. (2023). *Monitoring responsible and deforestation-free agricultural commodities in Denmark 2022: Status on implementation of the action plan against deforestation.* Department of Food and Resource Economics, University of Copenhagen. IFRO Report No. 2023/04

Figure 4 **Approximate proportions of Denmark's coffee imports from different countries, 2022**
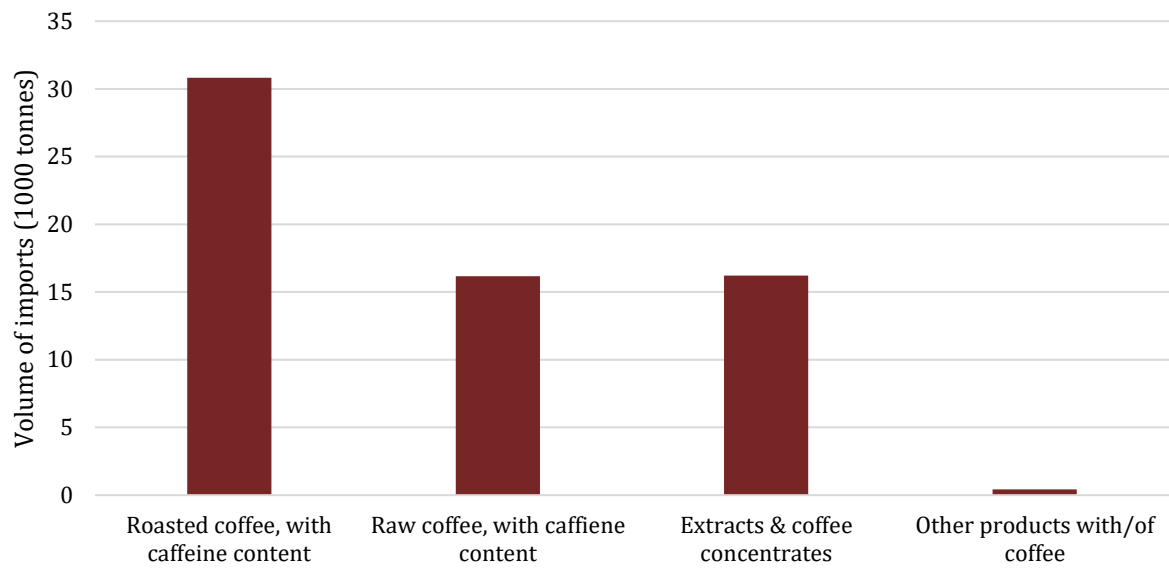

Figure 5 **Denmark imports of different coffee products, 2022**

3   Danish Alliance for Responsible Coffee

Launched in January 2023, the Danish Alliance for Responsible Coffee brings together relevant Danish actors in a binding collaboration to transform the coffee sector for coffee value chain actors from all market segments. The purpose of the Alliance is to facilitate collective action for a responsible, climate-resilient and more equally distributed value chain. This is done by creating a platform for knowledge sharing, cross-sector collaboration, and development of joint understanding of what responsible coffee value chains imply and which steps can be taken next.

Ethical Trade Denmark acts as secretariat for the Alliance, which entails the following roles:

- Mobilising a broad group of Danish multistakeholder actors to join the Alliance;

- Supporting Alliance participants to achieve the vision from their different starting points through guidance, constructive debate, tools and sharing of good practice;

- Establishing and facilitating working groups and missions;

- Monitoring and communicating about overall progress enabled by the Alliance;

- Facilitating knowledge sharing and a nuanced Danish debate on topics related to coffee production, living wages, transparency, climate change resilience, deforestation, and regenerative agriculture;

- Engaging with other Danish and foreign stakeholders to spread the Alliance vision and discuss pathways for progress; and

- Collaborating with similar initiatives in other countries as well as relevant international organisations, certification schemes and others, such as the Global Living Wage Coalition, the Science Based Targets initiative, IDH and Solidaridad.

3.1   Membership

Participants in the Danish Alliance for Responsible Coffee are divided into one of the following two groups:

1. **Company members** may be coffee buying, roasting and/or or retail companies, or may be companies that work as service provider or innovator in the coffee sector. Company members commit to publish an action plan and to report on progress to the secretariat annually.

2. **Supporting members** include NGOs, ministries, business associations, trade unions, think tanks, municipalities, and researchers. Supporting members have a key role in mobilising and supporting their members or constituencies and thus support with their knowledge and knowhow within coffee and in the countries where the production of coffee takes place.

All members work actively in within working groups (see below). They also commit to alerting other members to the issues affecting or opportunities arising the coffee sector, and to working in close collaboration with other members to transform the sector or specific coffee value chain.

Figure 6   Alliance members, Oct 2023

Currently, the Alliance is composed of 33 members, broken down into 25 company members (six of which reported as service providers, meaning that they focus on supporting the development and/or sale of coffee products, rather than processing and producing coffee products) and eight supporting members.

3.2   Focus areas

The Alliance is focusing on taking action in four key areas that are defined as missions, with working groups established for each:

Since the launch of the Alliance, indicators have been developed by Alliance members and the secretariat for missions 1-3, and these are therefore the focus of this report.

3.3   Monitoring and reporting

Company members have committed to publishing an action plan, including a time schedule, for ensuring positive progress in alignment with the Alliance objectives and missions. They are also

obliged to report on an annual basis to the Alliance secretariat through a questionnaire, which is based on the mission indicators that have been developed through collaboration between members and the secretariat. The reporting is confidential, with questionnaire responses anonymised and aggregated.

This report is the first status report published by the Alliance, based on the first annual questionnaire completed by Alliance members. It therefore acts as a baseline against which future progress will be assessed.

The remainder of this report analyses member responses to this first questionnaire, summarising current levels of progress against different indicators, and the challenges and future opportunities highlighted by members.

4 Alliance members' reporting and progress

Of the 33 Alliance members, 31 submitted responses to the questionnaire. Of the members who submitted a response, not all were able to respond to every question, and some answered questions with 'don't know' – in both of these cases, their response has been recorded as 'unknown'.

Two members didn't submit a response. One company submitted a joint response as although it has two distinct brands (two different members) it has common ownership. The other company was not in a position to be able to submit a response in the given timescale.

For some questions, it is not relevant for all members to respond – for example, service providers and supporting members do not import coffee from producing countries, so are not expected to respond to questions on coffee import volumes. In these cases, only the total number of companies that could respond (i.e. the importers of coffee from producing countries) are considered in the analysis. Assumptions and caveats are clearly cited in each sub-section.

Sections 4.1-4.5, and the analysis they contain, correspond to the different sections of the questionnaire that members responded to.

4.1 Alliance members' coffee volumes

Seventeen members who source coffee from producing countries were able to provide information on their total imported coffee volume and sourcing origins, with 16 also reporting their specific volumes from different countries. The total reported volume is 19,049 tonnes, with imports originating from 28 countries. Although respondents were not asked to provide the form of coffee that they import (e.g. green or roasted), this volume is likely to have a high proportion of green beans, as the respondent companies were asked to only report imported volumes of coffee.

Compared to the Danish import data presented in section 2, the reported Alliance volume of 19,049 tonnes represents approximately 40% of Denmark's total imported volume of 48,097 tonnes, which includes a mix of coffee products, and 30% of the estimated 63,626 tonnes green bean equivalent volume. The total volume of green beans imported to Denmark was estimated to have been around 16,285 tonnes in 2022, a figure which is lower than the reported Alliance volume. The reported Alliance volume may therefore include a mix of coffee products, although it might also suggest that the Alliance may have a very high visibility of Denmark's total green bean volume.

The Alliance membership shows a large variation in volume scale, with one company representing almost two thirds of the total reported volume, while eight companies reported less than 100 tonnes each.

When considering patterns within this headline data, the smaller company members tend to import or use more specialty coffee (see figure 7 below). [20] Twelve companies,

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[20] Speciality coffee is defined by its high quality and specific controlled characteristics, which themselves are often characterised or guaranteed by traceability to a single point of origin, for example, a specific coffee estate.

representing 6,269 tonnes or 33% of the total reported volume, provided data on the proportion of their volumes that is specialty coffee. Two-thirds of this sample is represented by small companies with volumes at or below 200 tonnes and speciality proportions at or near 100%. However, the average proportion of specialty coffee for companies that reported their volumes of specialty coffee was 75%, with the two companies in this sample that reported the highest total volume also reporting the lowest specialty percentage.
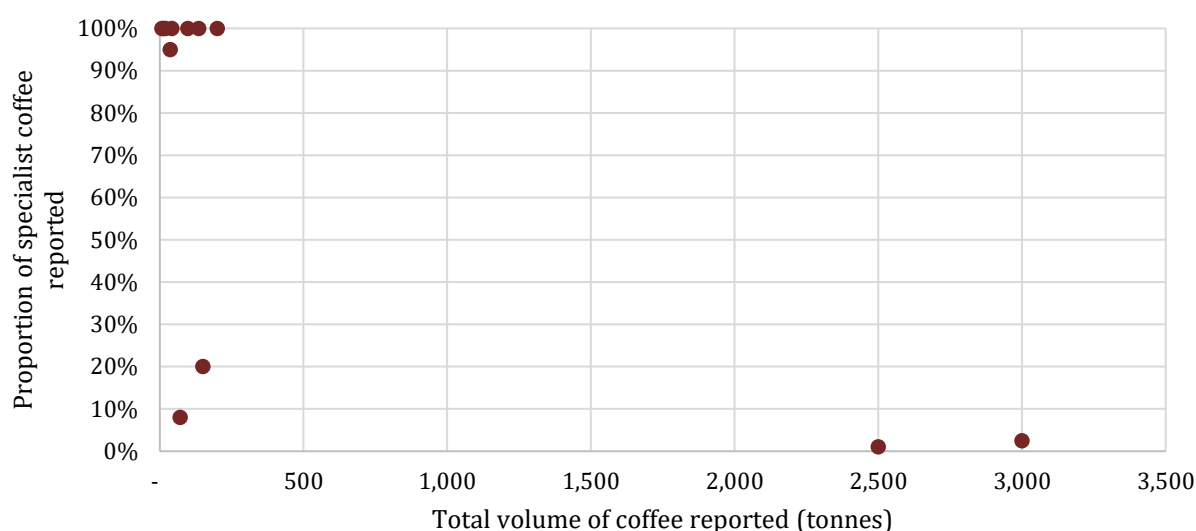

Figure 7   Variation in proportion of specialist coffee compared to total volume of coffee reported

The total volume of specialty coffee reported was 682 tonnes, or 4% of the total Alliance volume.

Although speciality coffee will generally have a high degree of traceability, this does not guarantee a high degree of sustainability, and efforts are ongoing amongst downstream actors in the speciality coffee industry to better understand how they can support sustainable production[21].

4.1.1   Coffee origin

17 companies provided information on the countries of origin of their coffee, with 28 different countries named as shown in table 1.

Table 1   Countries of origin reported by Alliance member companies

Country	Number of companies sourcing from this country
Peru	14
Colombia	13
Honduras	12
Ethiopia	11
Kenya	11
Brazil	10
Guatemala	10

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[21] https://sca.coffee/sustainability

Nicaragua	9
Uganda	9
Mexico	7
Indonesia	6
Costa Rica	6
Vietnam	4
Papua New Guinea	4
Tanzania	4
El Salvador	3
India	3
Rwanda	3
Malawi	2
Democratic Republic of Congo	2
Ecuador	2
Bolivia	2
Laos	1
Cameroon	1
Zambia	1
Burundi	1
Yemen	1
Panama	1

16 companies also provided a breakdown of their volumes of coffee by countries of origin. This reported known-origin volume amounted to 16,247 tonnes, which is 85% of the total volume reported by the Alliance. Figure 8 shows that, at a regional level, the majority of known-origin coffee reported by the Alliance comes from Central and South America (22% and 46% respectively), compared to 19% from Central and East Africa and 13% from South and Southeast Asia.
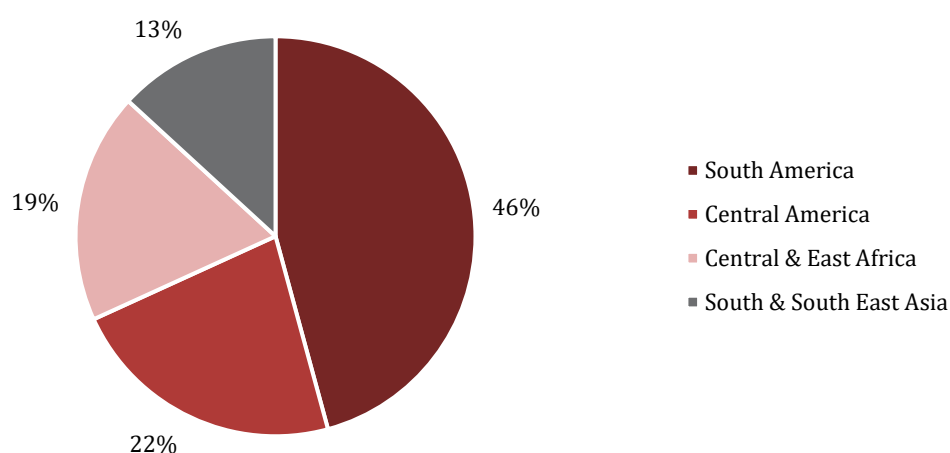

Figure 8   Reported coffee origin by region

At the individual country of origin level, the Alliance data aligns with the general pattern observed for European imports, with Brazil being the largest single origin, alone accounting for around a third of the total reported volume. The remaining 22 countries not named in figure 9 below were each the origin of less than 1,000 tonnes, with 11 countries being the origin of less than 100 tonnes.
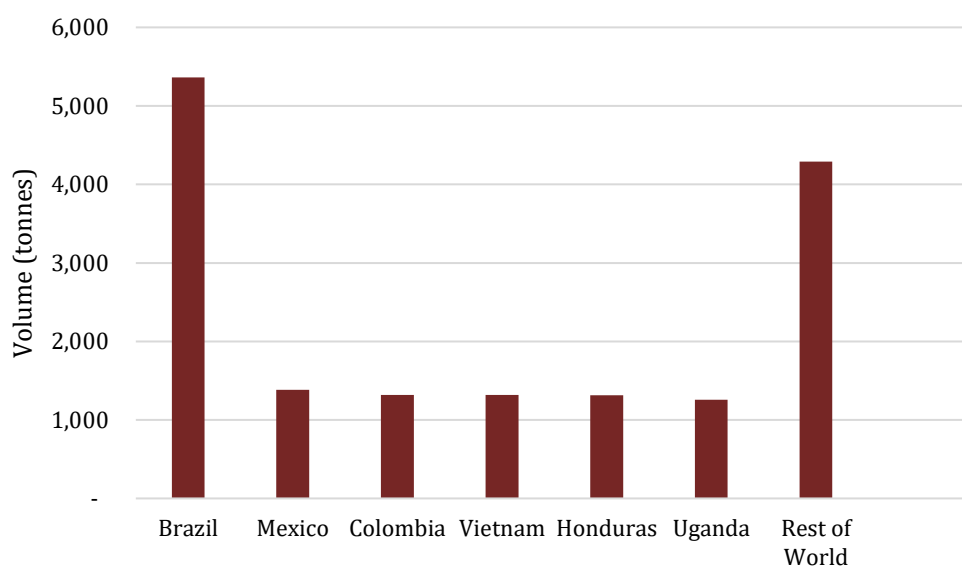
Figure 9   Reported coffee origin by country

4.2 Mission 1: Regenerative agriculture and climate action

In the coffee sector, deforestation and climate change and inextricably linked. When produced unsustainably, coffee is a key driver of forest loss in countries of production, contributing to deforestation-driven global warming. Our changing climate is predicted to result in the total area suitable for coffee production decreasing in size by 50%,[22] having significant knock-on implications for price and product availability in the sector. *Arabica* is particularly vulnerable to global warming, with an average annual temperature requirement of 19 degrees Celsius, compared to 23 degrees for *robusta,* which, whilst therefore more resilient, is regarded as the inferior of the two in terms of quality and taste. However, hope lies in the possible cultivation of more climate resilient species such as *stenophylla* (a currently rare and threatened species in West Africa) and *liberica,* which currently accounts for around 2% of the global coffee bean harvest.[23]

To address the impact of the industry on production landscapes and the climate, Alliance members are taking action in a variety of ways. **This includes sourcing coffee that is certified Organic**, which means that it is produced in a way that limits its impact on the environment, including through not using agrochemicals that damage biodiversity and soil health.[24]

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[22] IDB, *The Most Unexpected Effect of Climate Change*, https://www.iadb.org/en/improvinglives/most-unexpected-effect-climate-change#:~:text=But%20this%20is%20likely%20to,become%20hospital%20to%20the%20crop.

[23] https://www.bbc.co.uk/news/business-65189695

[24] EU Regulation on organic production and labelling of organic products, updated 2023, https://eur-lex.europa.eu/eli/reg/2018/848/2022-01-01
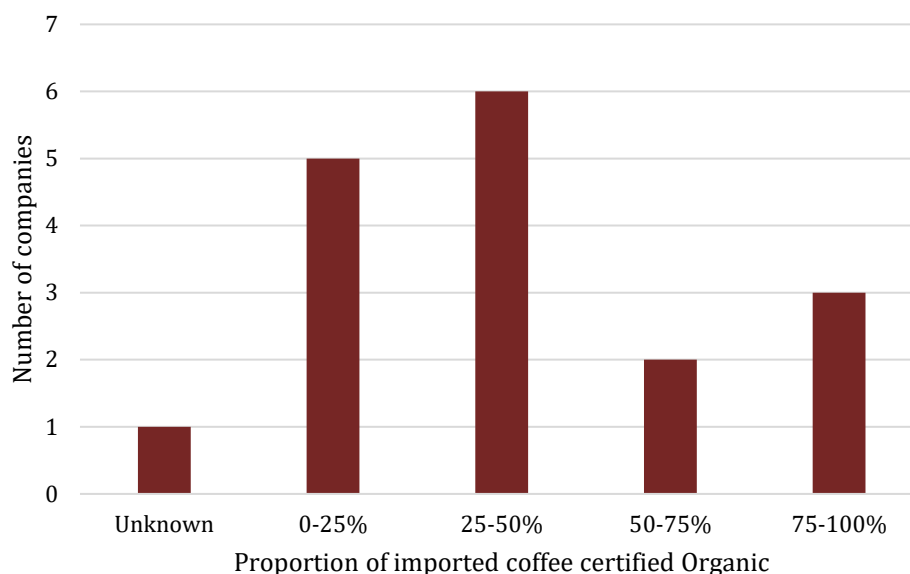
Figure 10   Alliance members' sourcing of Organic certified coffee

As shown in figure 10, of the 17 companies who were asked to provide information on organic sourcing, five sourced over half of their coffee as certified organic in 2022. For the majority of those who responded (12 of 17), less than half of their coffee was certified organic. This could be a result of Alliance members' coffee origin. As seen in Figure 7, 19% of Alliance members' imported coffee is from Central and East Africa, and studies conducted by IFOAM and GIZ in 2020 concluded that the percentage of African coffee production which is certified organic is very small, perhaps due to the expensive auditing fee of certification.[25] However, other steps are also being taken by Alliance members to address the need to ensure sustainable coffee production practices.

Figure 11 provides an overview of Alliance members' understanding of the agricultural practices used in their supply chains. Only 11 members were able to provide data in regard to this indicator, but of them, the majority reported that only a small proportion (0-25%) of their coffee is grown in full sun monoculture systems, which can negatively affect biodiversity and are associated with soil degradation and environmental contamination.[26] These 11 members represent only one-third of the Alliance's total coffee volume, so it is not possible to draw conclusions about the production systems from which the whole Alliance sources its coffee from the data in this report. **A number of members also source coffee that is produced in agro-forestry systems, which support biodiversity and enhanced ecosystem services.** These include coffee that is shade grown with a single tree species, and that grown in systems with multiple other species.

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[25] GIZ, *Boosting Organic Trade in Africa*, 2020 https://www.giz.de/en/downloads/Market-Brief_Coffee_WEB.pdf

[26] Science Direct, September 2023 https://www.sciencedirect.com/science/article/abs/pii/S0167880923002487
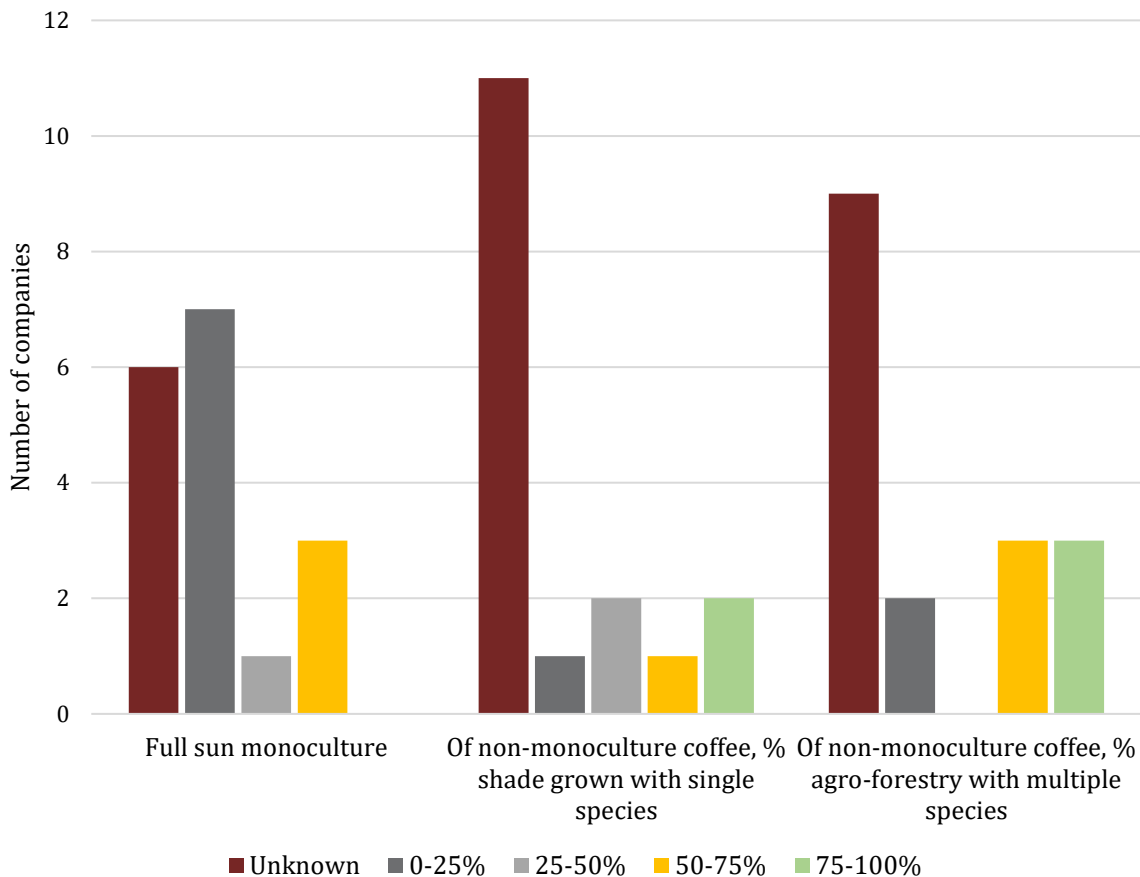
Figure 11   Proportions of Alliance coffee volumes sourced from different agricultural systems

As companies noted in their responses to the questionnaire, the definition of agroforestry is not always clear. Some companies use more general definitions, such as the incorporation of several species of shade trees and other crops or areas cultivated with greater biodiversity. Others use more precise definitions, for example the presence of a certain number of tree species and crop species per hectare. Broadly speaking, agroforestry is where agricultural systems incorporate the cultivation of trees, and some members referenced sources including the Regenagri Standard and FAO. Eight companies have at least a proportion of their imported coffee produced in agroforestry conditions; for two members, 100% of their volumes are produced in this way.

To understand and account for their impact on climate change, **companies are also taking action on calculating their scope 3 emissions** – indirect emissions that occur in a company's value chain. For Alliance members, this includes any emissions generated throughout their supply chains by the production and transport and consumption of the coffee that they source. Figure 12 illustrates the current level of progress of Alliance members' in calculating the scope 3 emissions for the coffee they are sourcing.
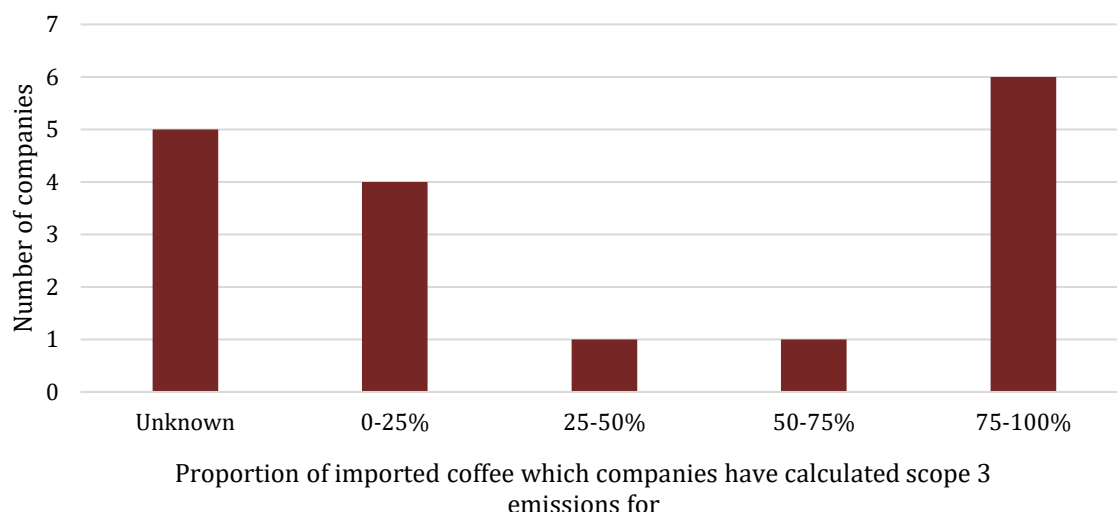
Figure 12   Members' progress in calculating scope 3 emissions

Half of companies that responded to this part of the questionnaire have calculated scope 3 emissions for at least 75% of their imported coffee volumes. However, for a significant number of members this proportion is low or unknown, which may indicate a need for stronger understanding of how this action can be undertaken, and for support in doing so.

For members that have calculated their greenhouse gas emissions, a variety of methods were cited, including using the Greenhouse Gas Protocol, a life cycle analysis method such as ISO 14044 standard, and reporting to SBTi (Science Based Targets initiative) according to the FLAG (Forests, Land and Agriculture) method. In three cases, members have cited third party verification from organisations including FORCE Technology, University of Copenhagen and Deloitte.

In addition to calculating emissions, members are also assessing the proportion of their coffee volumes that is deforestation-free (see figure 13 below).
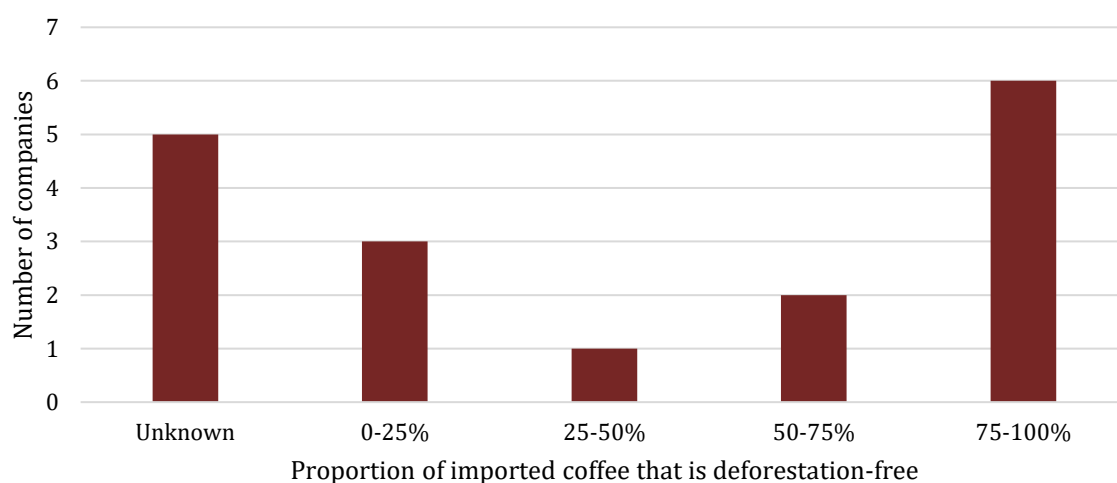

Figure 13   Members' progress in sourcing deforestation-free coffee, according to current standards such as certification

Of the members able to respond to this part of the questionnaire, half (six) reported that over 75% of their coffee is deforestation-free according to current standards, such as certification. Of this group, four reported over 95% of their volumes as deforestation-free. **However, for a significant proportion of the Alliance membership, their deforestation-free proportion is unknown.**

In addition, five members reported that over 75% of their volumes are deforestation-free in accordance with the EUDR, of a total of 10 members able to report on this indicator. This is significant particularly given that the EUDR will require companies placing coffee on the EU market to undertake due diligence to ensure it is not linked to deforestation, including providing additional information such as geolocation coordinates. The fact that several members importing coffee were unable to provide information on this indicator is therefore an important information gap for the Alliance to address as a priority. The questionnaire responses provided by Alliance members also suggest there is a lack of clarity of the meaning of 'deforestation-free' under the EUDR – there are three examples of companies providing information on proportions they consider to be deforestation-free in accordance with current standards, but declaring 0% or unknown for the question of whether they are deforestation-free in compliance with the EUDR.

Other ways companies have contributed to regenerative agriculture and climate action include:

"We pay a price significantly above the market price. This contributes to the fact that the producers have the opportunity to do more than simply minimize costs and can therefore, for example, invest green."

"We are converting monoculture farms to agroforestry farms – this summer alone, we have planted 42,500 shade trees"

"In winter 22/23 we managed to release a verified carbon neutral coffee to the net zero standard of reducing emissions by >90% - this coffee is now by far our most popular coffee reducing our emissions significantly."

"We are taking part in other initiatives and projects like the Slow Food Coffee Coalition."

4.2.1   Mission 1: Summary

- 17 companies import coffee from producing countries and were therefore asked to provide information on the nature of these volumes.

- For five of these companies, more than 50% of their coffee is certified organic, and 12 source less than half of their coffee as organic. Only one was not able to provide this information.

- Only a small proportion of these Alliance members' coffee is reported to be grown in full-sun monoculture systems, and a number of companies are sourcing coffee produced in agro-forestry systems.

- Six of the 12 companies who provided information on scope 3 emissions associated with their coffee imports have calculated this for more than 75% of their volume, but for the remaining 5 companies this figure is unknown.

- According to current standards such as certification, six companies reported that over 75% of their coffee is deforestation-free, but, in contrast, five were not able to report this information. Additionally, 10 companies were able to report on the proportion of their imported coffee which is compliant with the EUDR, but seven were unable to respond to this indicator.

4.3 Mission 2: Living income and better livelihoods

Coffee is heavily reliant on smallholder farmers. It is cultivated on approximately 12.5 million farms worldwide, 95% of which are less than 5 hectares in size.[27] Low and volatile coffee prices have had a serious negative impact on farmers, with inequality rife within coffee value chains; in many countries, average income for coffee farmers is at or below the poverty line. The need to ensure a living income for coffee farmers is therefore a major priority for the sector, and for members of the Danish Alliance for Responsible Coffee.

One of the mechanisms through which companies can contribute towards ensuring a living income for farmers is by sourcing coffee certified to standards such as Fairtrade and Rainforest Alliance. Both of these are founding members of the Global Living Wage Coalition, and Living Income Community of Practice, and incorporate criteria within their standards which aim to raise the living income of commodity producers. Fairtrade, for example, has established Living Income Reference Prices for coffee in five different countries (Ethiopia, Colombia, Indonesia, Honduras and Uganda), all of which are sourcing countries for Alliance members, to ensure that decent provision is made for coffee producers.

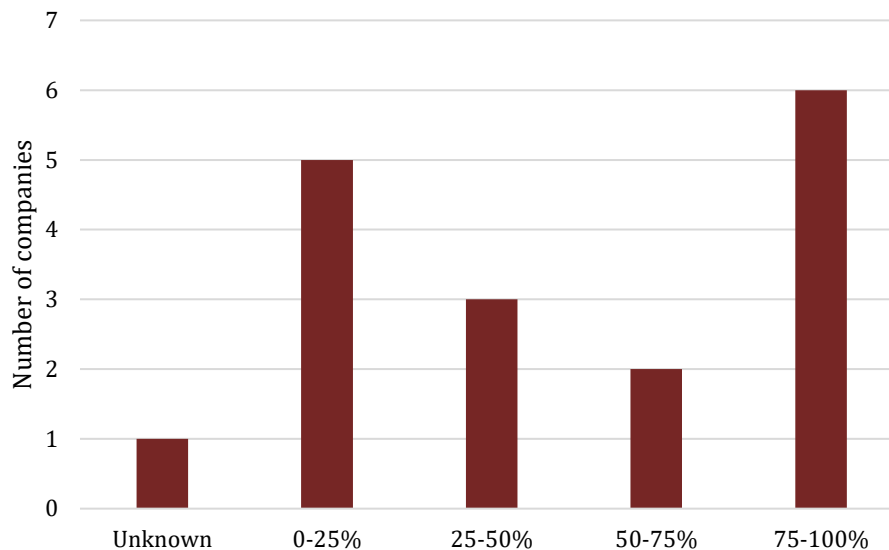---

[27] Coffee Barometer 2023, p. 14

Figure 14   Proportion of members' coffee that is third-party certified

Figure 14 shows the proportions of members' coffee volumes that are third-party certified, for the 16 companies who were able to provide this data. **This shows a strong variation in the proportions of members' coffee that is third party certified.** Six members declared that a proportion of their coffee between 75-90% is third-party certified, four of which stated that this covers over 95%. Fairtrade and Rainforest Alliance certification is used by many of those members that do source certified volumes. Overall, an estimated 32-54% of the volume reported by members is third-party certified.[28] In addition, and as referenced in section 4.3, two companies stated that 100% of their third-party certified coffee was Organic certified, and a further three also used Organic certification to cover some of their volume.

Second-party certification is another mechanism used by Alliance members, with three of 17 members to provide information about this stating that they certify over 95% of their volume in this way. Second-party certification is carried out by a person or organisation with a relationship or interest in the company. Respondents were asked to indicate examples of how they achieve and monitor this. One company stated that they use local organic certifications in this way, whilst others pointed to B-Corp certification. Another respondent indicated that they use an in-house direct trade programme in which they are able to monitor and document what is being paid to the producer, ensuring that it is always above their threshold price.

Looking beyond certification, members also highlighted a range of other methods through which they enable a living income. One company reported that 98.3% of their coffee was bought through their transparent direct trade programme where they know the producer and can document what they have been paid, ensuring that it is always above 3 USD/lb. This programme also includes a due diligence procedure which is followed to ensure that the producers are meeting the requirements of national legislation.

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[28] Calculated by applying the minimum and maximum percentage in the category selected by each company to the volumes they reported.
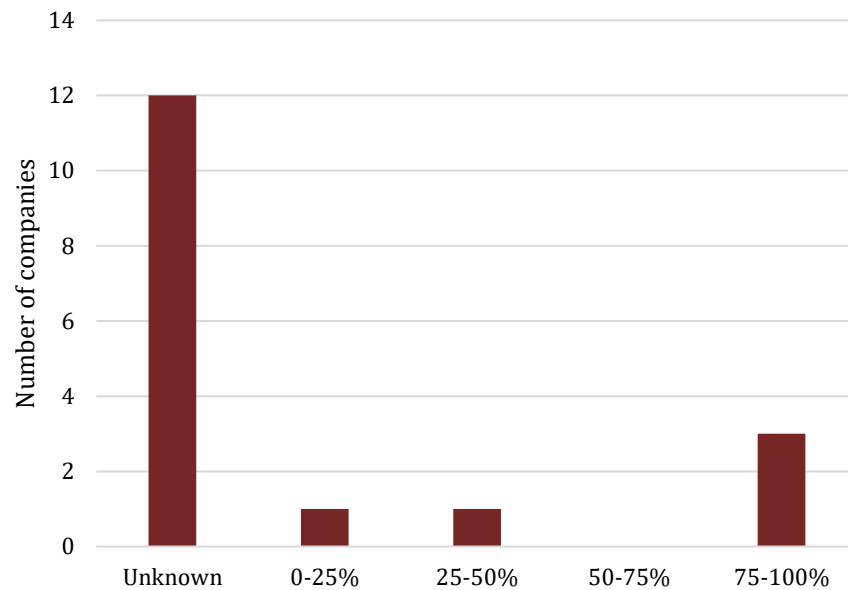
Figure 15 Proportion of members' imported coffee that enables a living income

Members were asked to indicate how much of their imported coffee enables a living income, with responses represented in figure 15. Only five members were able to provide a response to this question, but of them, three indicated a percentage of greater than 95%. The fact that so many were unable to respond to this question suggests this is an area which has had less focus, or that this information is not easily available to the companies.
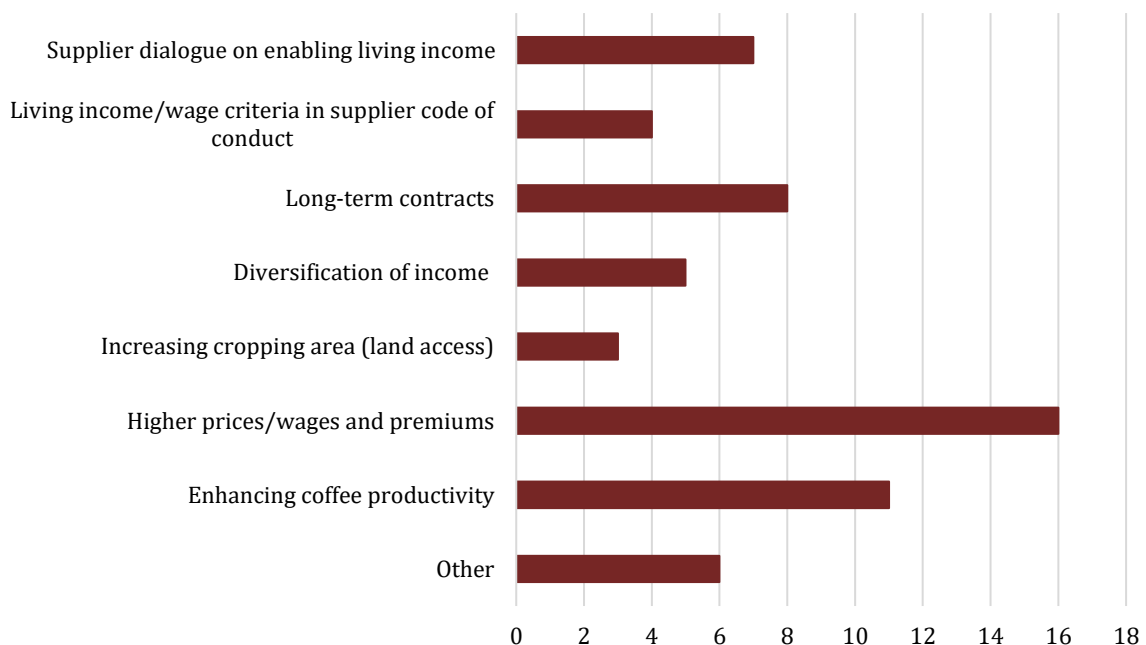

Figure 16 Methods companies use in working towards enabling a living income

With some members already enabling a living income through a proportion of their volumes, a greater number are taking steps to work towards this, as described in figure 16. Of the 17 company members who submitted responses to this part of the questionnaire, 16 indicated that

they are working towards enabling a living income in their supply chain by **paying higher prices/ wages and premiums.** There is also a clear focus on **enhancing coffee productivity** as a way of enabling a living income, with 11 companies engaged in this activity.

Additionally, seven respondents indicate that they have a **dialogue with their suppliers on living income**, and eight have long-term contracts in place. Respondents who selected 'other' were also asked to specify, and one indicated that they work with the same suppliers over an extended period of time, an activity which would also fall under this category of increased supplier engagement.

4.3.1 Mission 2: Summary

- 16 companies provided information on third-party certification of their imported coffee, with a strong variation in proportions covered by this.

- It can be estimated that between 32% and 54% of the total volume reported by members is third-party certified.

- Members also reported volumes covered by second-party certification, with three of 17 respondents covering 95% of their volume in this way.

- Only five companies were able to indicate how much of their coffee enabled a living income, but more were able to report on methods used in working towards this, such as paying higher prices, enhancing coffee productivity, and engaging in long term contracts with suppliers.

4.4 Mission 3: Accountability in the value chain

Companies throughout the supply chain have a responsibility to ensure equality, particularly with regard to ensuring producers receive a living income. The increased inclusion of small farmers within the value chain is key to this, through forming fair and transparent partnerships in the direction of better livelihoods. A principal element of ensuring accountability in the value chain is through traceability. This is a particular challenge in the coffee sector, where small-scale production dominates, with remote and often mountainous production regions leading to difficulties in tracing supply and supporting producers.

This is an area that the Alliance has a strong baseline of progress in, as shown in figure 17; **11 members, representing 73% of members able to provide information on this indicator, can trace at least 75% of their coffee to farmer level.** An estimated 62%-79% of the reported volume is traceable to origin. Traceability back to origin is an essential step in ensuring that companies throughout the value chain are sharing responsibility for supporting a responsible coffee supply chain.
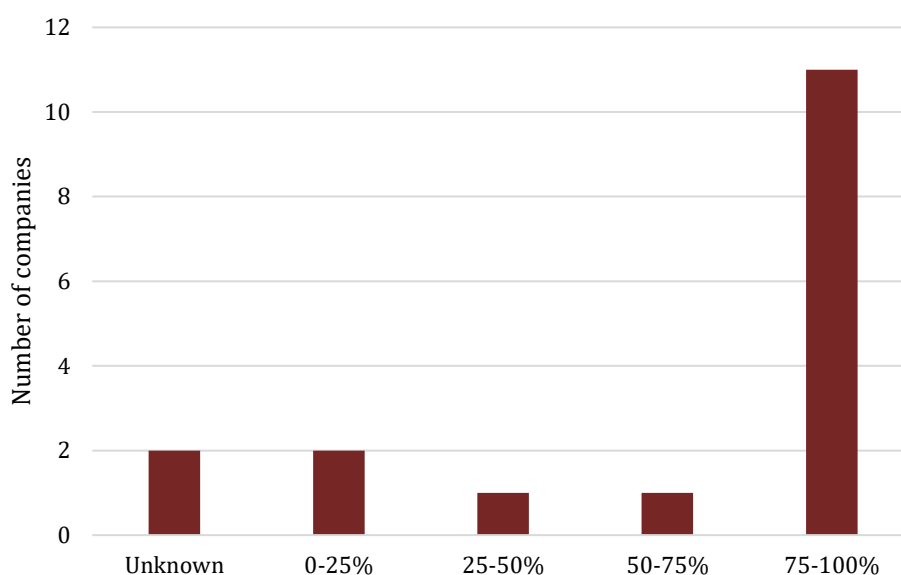
Figure 17   Proportion of coffee that members can trace to farmer level

The questionnaire used for this baseline report also required companies to elaborate on the ways that traceability was enabled within their supply chain. **Out of the 17 members who responded to this question, only 2 said that they had 'not enabled' traceability in their supply chains.** Those who stated they do enable traceability in their supply chains used mechanisms such as **direct trade with producers and supply chain management systems.**

Alliance members demonstrate examples of how these systems support them to ensure traceability of supply. For example, one member described supporting a cooperative in Honduras to build a packaging facility, enabling farmers to load the beans directly into containers which are shipped directly without middlemen to their roasting facility. Another stated that 98.3% of their volume was purchased directly from the primary mill or agricultural mill, and in the majority of cases where the primary producer does not grow the coffee themselves (e.g. cooperatively owned wet mill), the supply chain management systems could indicate who grew the coffee.

In addition to traceability, a critical part of a responsible coffee supply chain, as discussed in section 4.3, is a fair price being paid to farmers. This begins with transparency about the price paid to the mill or farmer – for importers of coffee, action cannot be taken to ensure fairness of price without first knowing the price a farmer is paid, so transparency about this is important. **Out of 13 members able to respond to this part of the questionnaire, 8 (61%) stated that they have 75- 100% transparency on the price paid to the mill or farmer**, with just 3 (23%) saying they had between 0-25% transparency. Overall, an estimated 5%-22% of the coffee volume reported by Alliance members has known farmgate prices. 10 Alliance members also described how they are implementing price risk management practices to mitigate risks faced by producers, for example engaging in "*12 months contractual agreements by which we secure the pricing at a given minimum, and then should prices on world market increase, we compensate for such difference in a premium.*" Some also undertake in-person visits to producers to support a positive long-term relationship.

Many of the Alliance members have monitoring systems in place that enable them to achieve traceability in their supply chains and track income levels and production costs of farmers, supporting them in progress towards the indicators assessed above. Such systems can also enable detection of deforestation, so are also applicable to other Alliance missions. The various monitoring systems implemented by Alliance members are summarised in figure 18 below.
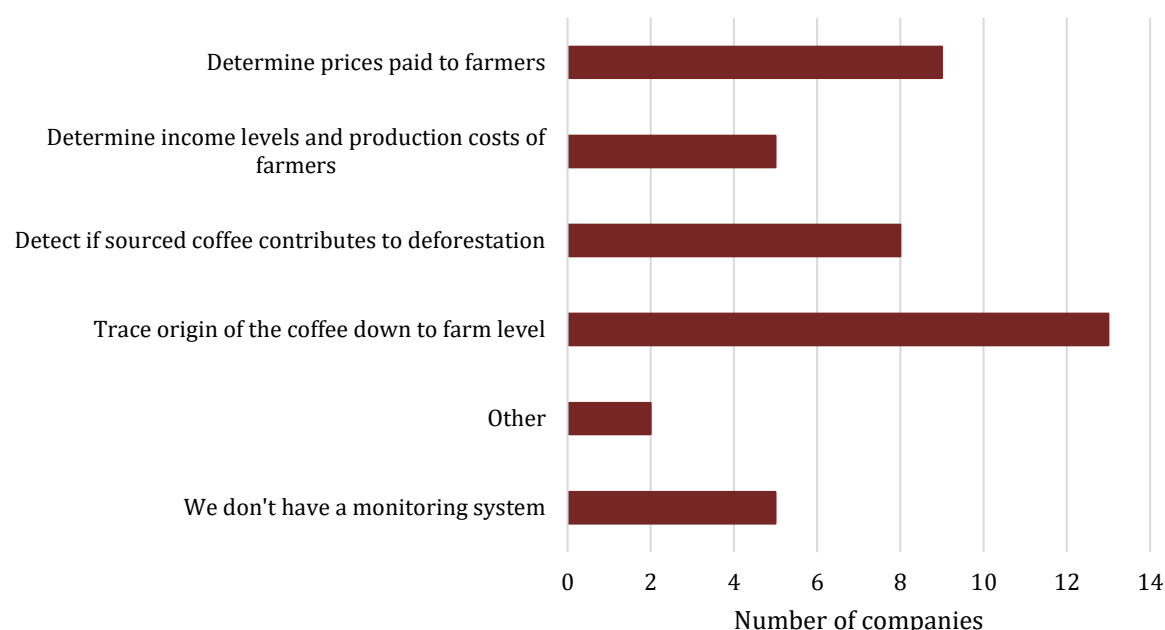

Figure 18   Functions of Alliance member monitoring systems

The fact that the most common type of monitoring systems is one that supports traceability to origin (used by 13 members) **could reflect an increased focus on traceability ahead of the implementation of the EUDR**, compliance with which will require this. Eight companies are able to detect if sourced coffee contributes to deforestation, perhaps as a result of the aforementioned traceability systems.

Alliance members also described how they implement practices that recognise and reward producers for implementing sustainable practices and traceability measures, with certification, the use of agroforestry systems and biodiversity programmes all being financially rewarded. One member stated that that they "*only buy from producers who are willing to work with traceability and pay an organic premium of $0,5 USD/lb.*" whilst another provided conditional incentives and income protections in selected poverty areas including Côte d'Ivoire, Honduras, Uganda and Rwanda.

Additionally, one member detailed the work done by the Slow Food Coffee Coalition (SFCC) as a good example of how companies can implement sustainable practices and improve traceability. They went on to say that "*the Coalition has set up a Participatory Guarantee System that needs to be used by the producers and communities willing to join the coffee coalition. A Participatory Guarantee System is an alternative certification model where unlike third party certification schemes, the PGS coordinates its actions toward creating a collective dimension based on a shared understanding of production and distribution principles and a common agreement of responsibility.*"

Members also highlighted other ways in which they are ensuring accountability in the value chain, including:

- Establishing various sustainable coffee initiatives and development projects

- Engaging in public dialogues about transparency and accountability

- Establishing a due diligence process around financial sustainability and anti-corruption

- Formulating a policy on sustainability and also a Code of Conduct for business relationships

- Publishing all the prices paid for coffee for full transparency and donating that same data every year to the Specialty Coffee Transaction Guide

- Asking suppliers for proof of payment to the primary farms/cooperatives to assess the fulfilment of living incomes

- Projects to help drive regenerative agriculture, reduce greenhouse gas emissions and improve farmers' livelihoods

- Working on a code of conduct for our suppliers; and

- Having internal (company) understanding of our entire value chain, and sharing this with coffee producer partners on origin visits if they request this.

4.3.2   Mission 3: Summary

- 11 members are able to trace at least 75% of their coffee to the farm, out of 17 able to provide information on this indicator.

- Eight out of 13 respondents indicated that they have 75-100% transparency on the price paid to the mill or farmer, and many are implementing price risk management practices.

- Only five respondents do not have a monitoring system in place, with most providing details on which areas their systems cover. The most common system is that which supports traceability to origin.

- Members are also working on accountability in various other ways, including the development of initiatives and projects, establishing due diligence, and formulating policies for suppliers.

4.4   Company action: projects and policies

Alliance members are undertaking a number of projects or programs that support their work around the Alliance missions and their broader progress to source coffee responsibly. Many of these questions were relevant to all members, and not only those who source coffee. These are summarised in figure 19 below.
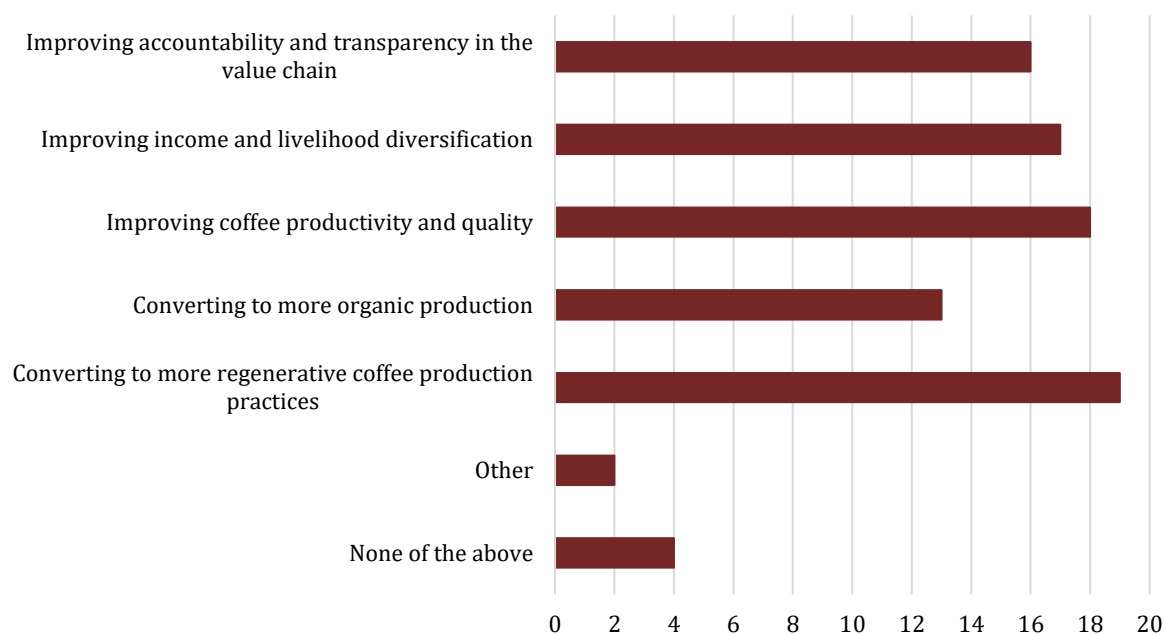
Figure 19   Ways in which Alliance members support producers through their projects

19 members were also able to provide information about the proportion of their sourced coffee that is supported by their programs and projects. Three respondents indicated that more than 95% of their coffee is covered, and a further three said between 75-90%. Most respondents indicated 0-25% of their volumes are covered by such projects, suggesting that this is an area that many have either not numerically assessed or placed significant focus on until now.

Member responses also indicated that, collectively, their projects are operating in 22 different countries. The countries with projects and programs in place roughly mirror those from which the Alliance collectively sources coffee, and countries with a greater sourcing volume tend to have more projects in place. Honduras is by far the country with the greatest number of members operating projects (10) – collectively, Alliance members source more than 1,300 tonnes of coffee from Honduras. Ethiopia and Uganda are also common locations for member projects, each with 8 members operating projects which support the coffee they source from these countries.

In addition to operating a range of projects on the ground, Alliance members are implementing strategies and policies that ensure the way they operate as a business is consistent with their aims as Alliance members. The range of areas that members' policies cover, and the number of members that are implementing them, is illustrated in figure 20 below.
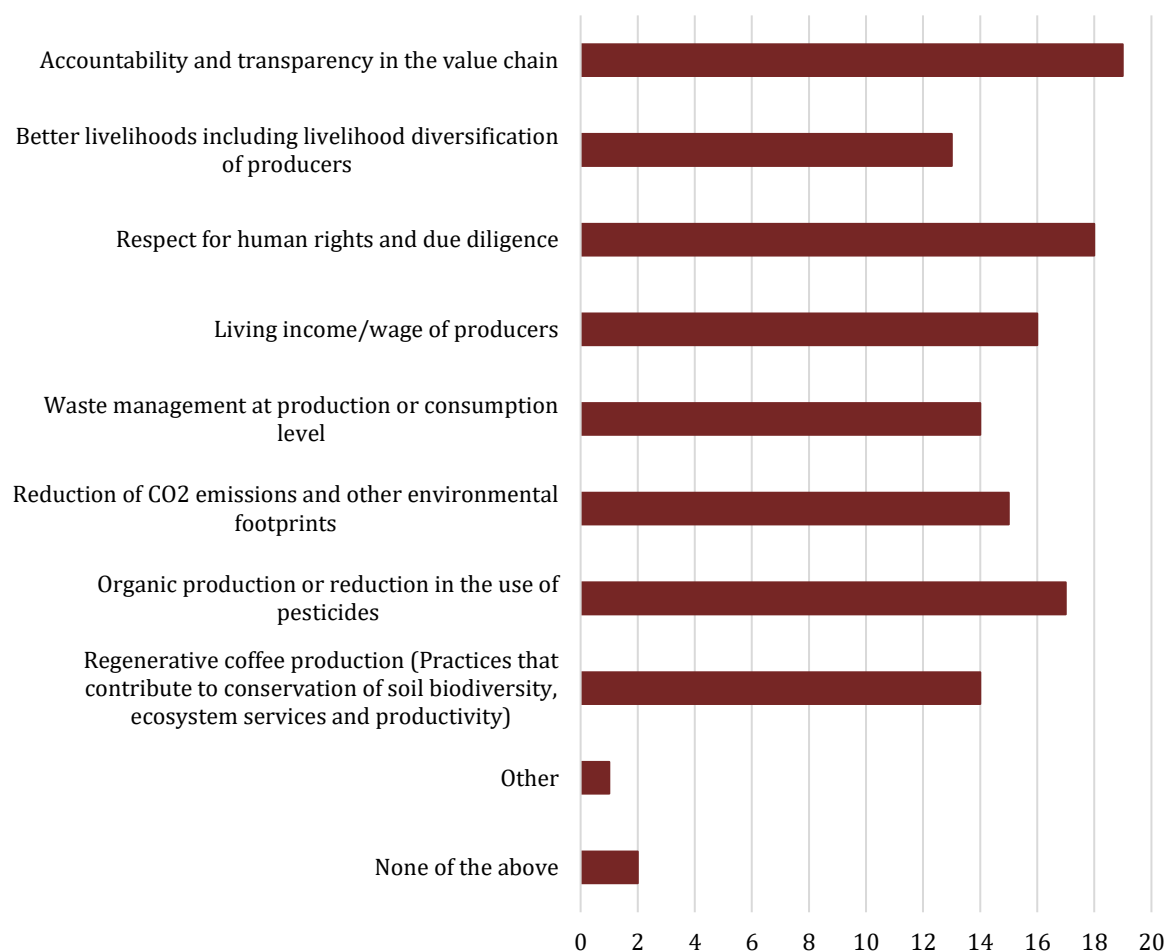
Figure 20   Policies or strategies being implemented by Alliance members

Of the 31 Alliance members to provide information on their policies, only two stated that they are not implementing any of those listed in figure 19. **At least 13 members have policies in line with each of the given categories showing a good range of focus in policies and strategies across the Alliance membership.**

4.5   The value of the Alliance

An important role of this baseline report is to highlight where members believe the Alliance is already adding value, and where support could be better directed in future to address emerging barriers.

Members were asked to indicate whether they believe the Alliance is adding value in a variety of different areas. Responses to this question are summarised in figure 21 below.

The key areas in which members see strong value from the Alliance at this stage include:

- **Knowledge sharing and cooperation between different stakeholders to support development of new perspectives.** With many of the challenges faced by the coffee sector requiring collaborative solutions from across the supply chain, dialogue such as that facilitated by the Alliance is critical and of clear value to members, with 21 stating

that it is providing value in this knowledge-sharing role. Similarly, 16 highlighted the value of being able to cooperate with other companies carrying out a similar role in the supply chain.

- **Developing a shared understanding of challenges, definitions and ways of working.** 22 members stated that the Alliance is adding value in this area, with a base level of shared understanding essential for pushing forward with collective action.

- **Provision of relevant knowledge and insights.** Many members are clearly at a stage where they feel the need to develop their knowledge of the wider sector to inform their actions as a business, and 21 indicated that the Alliance is valuable in supporting this by providing relevant insights into the market.
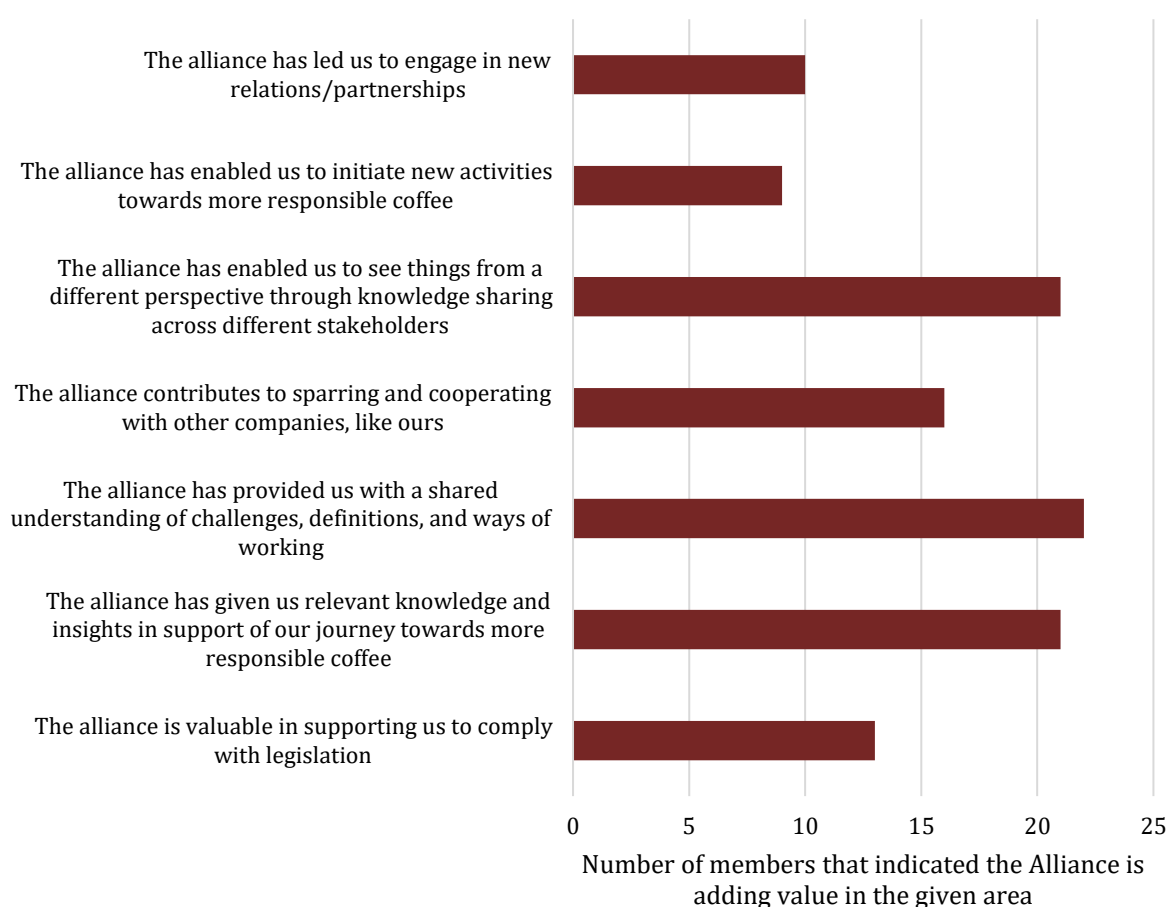

Figure 21   Areas in which members see the Alliance adding value

It is clear from these responses that the Alliance is already adding value as a knowledge-sharing platform that enables cross-sector collaboration. Other areas received more mixed responses, for example with 13 members suggested that the Alliance is currently adding value in supporting compliance with the EUDR. This might indicate that companies still require support in this area – a finding that, it should be noted, is reflected across European industry and other commodity sectors in general.

Members also provided clear examples of how the Alliance has enabled them to "*understand the regulation better*". One company said "*it is an important alliance for our outreach about EUDR and dialogue with key stakeholders on the upcoming regulation*". This shows that the Alliance can build on its status as a valuable knowledge sharing and collaboration platform to help members to understand it better in the build up to its implementation.

Other comments made by members emphasise how beneficial they feel the Alliance has been to their business since its establishment:

> "*Being a part of establishing this alliance and help put together different stakeholders and getting the chance to sit down collectively and see everyone involved in a common cause has been extremely rewarding.*"

> "*[We have been given] insights into challenges and ways of working that other companies like ours are also facing…[including] traceability in a large company, ensuring that farms have geolocation, which reporting system is the best to use, and how do other companies ensure traceability and implement their due diligence schemes.*"

> Commonality was a strong theme for several organisations, saying that the Alliance had given them a "*common mission and understanding*", strengthening their co-operation and "*establish[ing] a more common understanding of what can be done.*" They have a "*feeling of accountability*" through the Alliance.

> "*[The Alliance provides a platform where] members can establish common standards, certifications, and terminology, which will help reduce misunderstandings and streamlining communication within the industry.*"

5   Areas for future focus

The questionnaire used to produce this baseline report gave members the opportunity to highlight barriers they are experiencing in their path towards sourcing coffee responsibly. Understanding these barriers is important because it highlights where the Alliance's greatest opportunities for impact lie, and hence where future focus can be placed.

Key barriers highlighted by members include:

- **Cost.** Whilst one member said that their customers are willing to pay extra for sustainable coffee, others commented it was their main challenge, balancing the willingness to pay by the consumer and finding other ways to finance in a responsible way that is sustainable. Fair pay (living wage) to farmers was highlighted as a main issue for a few members, as "*low prices force farmers to cut corners and remove their ability to invest in more viable and responsible means of production*".

- **Green washing.** Some members expressed concern at the level of ambition being shown by some actors within the sector to make a genuine difference in, for example, ensuring a living wage for farmers. Others highlighted a perceived lag in investment in

sustainable value chains. One member said that "*we need to make doing good business equal to doing good*".

- **Lack of information that can support regulatory compliance.** Some members mentioned a lack of real time monitoring throughout the supply chain due to its length and complexity, and a struggle to obtain information directly from the farm. Achieving greater clarity of information that can support traceability will be important for the sector in general as it aims to ensure compliance with the incoming EUDR.

- **Absence of a common approach and collaboration across the supply chain.** Business have different strategies for progression, which can be limited by varying levels of resource, and one member commented on the importance that the industry "*continues to work towards a standardised and common approach on the way we work and document our various initiatives*".

These barriers offer a valuable insight into where the Alliance has an opportunity to continue to add value in the future. Some can be addressed by the Alliance's mission-oriented structure – for example cost is a key focus of the topic of living income, and green washing similarly for communication (the fourth mission, which was not focused on in this baseline report). In addition, the perceived absence of a common approach and collaboration is exactly what the Alliance has been established to address, and a collaborative approach can help to address issues with information availability throughout the supply chain.

Another key future opportunity for the Alliance could be in supporting understanding and progress of members in crucial areas for the Alliance missions, including:

- **Understanding of and compliance with EUDR requirements.** This is a highly important area for Alliance members in general, and the need for focus on this topic is reflected in the questionnaire responses assessed in this report. Many members were unable to provide an indication of the proportion of the coffee that can be considered deforestation-free, and more members felt that the Alliance is not supporting them to comply with the EUDR than those who did. There is a clear need for greater clarity and understanding in this area, which the Alliance can play a positive role in helping to facilitate. Indeed, one member suggested that the Alliance could help to "*maintain and strengthen a strong focus on robust and ambitious due diligence systems to comply with EUDR and beyond.*"

- **Understanding and calculation of scope 3 emissions**. Only a small number of members were able to provide this information in the survey, so a greater understanding of how to calculate this, and support in doing so, could be of great value to the Alliance. From the survey responses, we know that five Alliance members are already beginning to think about this in depth, being involved in some way in SBTi.

- **Progress on living income**. The Alliance could explore ways to support increased understanding of living income, and indicate or provide key resources to this end, as only five companies were able to provide information for how much of their coffee enables a living income.

Alliance members also provided other suggestions on where else the Alliance can contribute to future progress. These could include:

- **Performing an advocacy role.** One member suggested that the Alliance could use its position to "*lobby towards political action in order to change buying behaviour among business to business customers in general, but also [to try and change] the current principles in public tenders, specifically as in public tenders 50-70% of the evaluation remains based on pure cost/price per kg*". Another member proposed encouraging "*public institutions and decision-makers to change their policies and fiscal leverage to tax polluters and subside companies that invest resources to make coffee more responsible.*"

- **Raising the bar for ethical trade.** A common theme was using the Alliance to ensure ethical trade becomes "*more ambitious*", going beyond legality and compliance and "*holding everyone accountable to work towards doing better.*" Some also suggested the Alliance support member organisations by continuing to share best practice and driving the work towards a standardized approach.

The Alliance, and the coffee sector in general, is facing some fundamental challenges in order to reach a sustainable future. This baseline report shows where some gaps currently exist in the Alliance membership's progress in meeting these challenges, for example with understanding the connection between their supply chains and deforestation, and achieving traceability back to origin. It should also be noted that, for many indicators analysed in this report, a large number of members were unable to provide a response, so supporting members to understanding their individual performance baseline against these indicators is another important role that the Alliance can play.

This report also demonstrates that the Alliance is in a strong position to address the gaps that have been highlighted. Working groups have been established that not only align with major challenges such as enabling a living income and addressing climate change, but also with some of the key barriers that members have highlighted, such as cost and green washing. But most importantly, the Alliance provides a platform for learning and collaboration, fulfilling the need for a mechanism that encourages a common approach – an area that it is clearly providing strong value in already.