Coffee Value Chain

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Methodology

International retail price

An international retile price has been computed by weighting the retail prices on a regional basis (based on ICO data) by their share of total demand. World demand itself has been based on data from The European Coffee Federation and the USDA.

International coffee prices FOB

Coffee has been categorised into four distinct types, Colombian milds, other milds, natural arabicas and finally robustas. Since most coffee is priced on a differential basis the appropriate differential has been added to the applicable exchange price data. Differential data have been sourced from the trade. The estimate of Colombian milds has been based on data from Kenya and Colombia. Our estimate of Other milds is based on El Salvador and Costa Rica only . Natural arabica price is based on Brazil. Industry data on the discount for Vietnamese robustas has been applied, while it has been assumed that the price of robusta from other origins sells on par with LIFFE.

The price of each of the four types of coffee has then been weighted according to its export market share in the 2000/01 coffee year to give an export fob price. Data on market share are based on monthly export data from the ACPC (itself largely based on ICO data).

Price to growers

ICO data on prices to farmers provides the starting point. Countries are then classified according to the four types of coffee produced. The export market share has been computed for each country. Under each coffee category the export market share of the selected countries is summed and where it falls below the actual world market share for that type of coffee, the weighting is adjusted. For example in the case of natural arabica the two countries listed are Brazil & Ethiopia, which together account for 21% of world exports. However the total weight of natural arabicas in world trade is 26.9% so the export shares are reweighted so that the natural arabica component has a weighting of 26.9% in the final price index- in line with its actual world share.

Dry processed green bean price has been computed by totalling the weighted prices paid to growers producing robustas and natural arabicas. While the price of wet processed green bean is a weighted average of prices paid to all other producers of arabica (green) beans (ie Colombian milds and Other mild categories).

Most other costs are estimates gained through phone interviews with traders, brokers, dealers, roasters, coffee shop owners and origin. The exceptions are advertising costs, where the unit value previously identified by the EIU in its special report on coffee entitled 'Coffee, a market untamed' (The EIU 1994) has been increased by just over the rate of inflation. Finally, the gap between retail price less VAT (assumed 10%) and the weight-loss-adjusted price of coffee delivered to roaster stands at 256.7 cents/lb. Since little information has been gained on how this is divided between retailer and roaster it has been assumed that they share this amount in the same proportions as estimated by the EIU in its 1994 report.

Coffee value chain		
Retail price		**356.7**
VAT[a] etc	35.7	356.7
Retailers administration & margin	110.0	321.0
advertising	25.0	211.0
roasters cost & margin	121.7	186.0
weight loss adj[b]	54.7	**64.3**
Delivered to roaster		**54.7**
dealers margin	2.0	54.7
Importers interest & financial services	2.1	52.7
Transport to warehouse or roaster	0.5	50.6
FOT price		**50.1**
Reweighing loading on truck	0.7	
Instore		**49.4**
insurance while in store	0.1	49.4
reweighing costs	0.2	49.3
warehousing costs	1.1	49.1
handling charges	0.8	48.0
Port charges customs clearance	0.2	47.2
CIF Price		**46.9**
freight & insurance	5.0	46.9
Export FOB		**41.9**
Wet processed green bean		**47.5**
hulling costs & procesors margin	4.0	
weight loss adjustment [c]		44.0
Parchment factory door		40.5
Traders margin	0.5	40.5
Transport farmgate to factory gate	1.0	40.0
Farmgate price parchment		39.0
Wet processor's cost & margin	4.0	39.0
weight loss adjustment [d]		35.0
Transport cost	1.0	7.0
Fresh cherry	**6.0**	**6.0**
Dry processed green bean		**27.4**
hulling costs & processor's margin	4.0	27.4
transport & trader's margin (factory gate)	3.4	23.4
Weight loss [e]		20.0
Dry cherry	**10.0**	**10.0**

a An average TAX of 10% is assumed.
b An average weight loss of 15% during roasting is assumed.
c A recovery rate of just over 90% is assumed.
d Fresh cherry to parchment weight ratio is 5 to 1.
e One cherry yields two green beans.

Source: based on data from industry sources; ACPC, ICO, EIU & FO Licht.