

Fairtrade Living Income Reference Prices for Coffee from Colombia

update December 2022

Introduction

Preliminary Fairtrade Living Income Reference Prices (LIRP) for coffee from Colombia were first established in July 2021, following a multi-stakeholder dialogue with technical experts to analyse and agree on target values for each of the key variables in the price model. This resulted in farmgate price ranges of 8,570-9,900 pesos (US\$ 2.38-2.75) per kilogramme of dried parchment in case of conventional coffee and 9,500-11,000 pesos (US\$ 2.64-3.05) for organic coffee, calculated to enable living incomes for coffee farmers based on a holistic approach. (see [explanatory note](#))

Due to the lack of a recognized living income benchmark applicable to coffee growing regions in Colombia at the time of the price discovery process, a preliminary price range was established. A study into the costs of decent living was conducted by the Anker Research Institute in Antioquia and Huila in December 2021. The benchmark report was recently released and adopted for the LIRP updates.

Furthermore, the costs of production have been revised, taking into account the steep inflation of fertilizer and other input costs over the past year.

At the same time, the Colombian Peso has significantly devaluated against the US dollar over the past year and a half, magnifying the effect of inflation on dollar-based input costs, but compensating the effect on other costs of living if measured in dollars.

Fairtrade has applied corresponding inflation and exchange rate corrections to update the LIRPs for coffee from Colombia. The revised LIRPs are applicable from December 2022 and indicate the farmgate prices coffee farmers need to continue investing in sustainable coffee production and afford a decent standard of living.

Updated costs of decent living

The Global Living Wage Coalition, in collaboration with the Anker Research Institute, conducted a Living Wage and Income benchmark study in Antioquia and Huila, two major coffee growing regions in Colombia, and calculated the costs of decent living for a typical rural household comprised of four members. Data on the costs of living were collected in December 2021 and have been adjusted to November 2022 using an inflation correction of 12% based on national Consumer Price Index figures. **The costs of decent living in local currency increased by 20.5% compared to the high-end benchmark in the preliminary calculations.**

Living Income benchmark region	Global Living Wage Coalition		
	Antioquia	Huila	average
household size	4	4	4
# working age adults in hh	2	2	2
# children in hh	2	2	2
monthly costs of decent living per household in COP*			
food costs	1,087,752	1,087,752	1,087,752
housing costs	360,914	302,046	331,480
other essential needs (NFNH)	1,240,038	1,240,038	1,240,038
provision	134,435	131,492	132,963
total monthly cost of decent living	2,823,139	2,761,328	2,792,233
total yearly costs of decent living	33,877,665	33,135,935	33,506,800
derived daily living wage	91,809	89,799	90,804

*all costs updated to November 2022 - source: <https://tradingeconomics.com/colombia/consumer-price-index-cpi>

However, the inflation in local currency was compensated by an inverse trend in exchange rate to the US dollar and therefore the cost of living, if expressed in US dollars, actually **decreased from \$6.74 to \$4.82 per person per day.**

Colombia	GLWC - banana		Global Living Wage Coalition - coffee			
	original study - jan 2020		original study - Dec 2021		update Nov 2022	
Currency	COP	USD	COP	USD	COP	USD
Monthly Living Income per family (2 adults + 2 children)	2,315,500	820	2,500,000	635	2,792,000	587
Daily living income per person	19,032	6.74	20,548	5.22	22,948	4.82
Exchange Rate to USD	2,824		3,936		4,760	
Inflation rate			1.08	0.77	1.12	0.92

The same inflation rates were applied to the hired labour costs. A living wage of 90,800 pesos per day is derived from the living income benchmark to adjust the costs of hired labour outside harvest.

Harvest costs have increased disproportionately in Colombia. While in 2021 coffee pickers got paid around 600 pesos per kilo of cherry, currently the pay rate is 1,000 pesos on average. This rate has been factored into the new cost of production.

Corrected costs of agricultural inputs

The main farm investment to sustain adequate productivity levels is fertilizer. Current fertilizer prices were compared against the prices used for calculating the cost of production in 2021. Conventional farmers reported an increase in fertilizer costs of no less than 130% in local currency, which was confirmed by

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multiple sources. Similar increases were found for transport costs. The overall increase in costs for agricultural inputs, materials and transport was estimated at 122% from 3.5 million pesos per hectare to 7.77 million currently for conventional coffee.

Similarly, commercial organic fertilizers steeply increased in cost. A comparative advantage for farmers in the Sierra Nevada de Santa Marta who produce their own bio-fertilizer is evident, since the costs of primarily locally produced organic fertilizer have not been subject to dollar-based inflation. Therefore, there are large differences in cost structure between the organic farmers in the Sierra Nevada de Santa Marta and other parts of the country. On average, the input, materials and transport costs increased from 3.4 million to 5.97 million pesos per hectare for organic coffee.

	conventional coffee			
	2021 (COP)	2021 (USD)	2022 (COP)	2022 (USD)
household size	4	4	4	4
sustainable yield (kg/ha)	1800	1800	1800	1800
viable coffee area (ha)	2.8	2.8	2.8	2.8
total coffee yields (kg)	5,040	5,040	5,040	5,040
inputs, materials & transport	3,500,000	972	7,770,000	1,632
non-harvest hired labour	525,000	146	635,600	134
harvest labour	3,780,000	1,050	5,400,000	1,134
other (fixed) farm costs	500,000	139	600,000	126
total COSP farm	22,354,000	6,209	39,255,680	8,248
Living Income	27,783,000	7,718	33,506,800	7,039
FLIRP (farmgate, per kg)	9,900	2.76	14,437	3.03
exchange rate		3600		4760

Overview table of updated LIRP variables for conventional coffee. The revised values are highlighted in green if based on the updated Living Income benchmark or in red, where the inflation correction for inputs is applied.

	organic coffee			
	2021 (COP)	2021 (USD)	2022 (COP)	2022 (USD)
household size	4	4	4	4
sustainable yield (kg/ha)	1350	1350	1500	1500
viable coffee area (ha)	3.8	3.8	3.8	3.8
total coffee yields (kg)	5,130	5,130	5,548	5,548
inputs, materials & transport	3,400,000	944	5,965,000	1,253
non-harvest hired labour	1,275,000	375	1,452,800	305
harvest labour	2,650,000	736	5,250,000	1,103
other (fixed) farm costs	500,000	139	600,000	126
total COSP farm	28,335,000	7,871	48,737,680	10,239
Living Income	27,783,000	7,718	33,506,800	7,039
FLIRP (farmgate, per kg)	11,000	3.06	14,429	3.03
exchange rate		3600		4760

Overview table of updated LIRP variables for organic coffee. The revised values are highlighted in green if based on the updated Living Income benchmark or in red, where the inflation correction for inputs is applied.

Updated Living Income Reference Price calculations

The above mentioned adjustments to the cost of decent living, hired labour and agricultural input costs result in updated reference prices at farmgate of 14,437 and 14,429 pesos per kilo of dried parchment respectively for conventional and organic coffee. Since the difference between the conventional and organic reference price is minimal, **a single Living Income Reference Price of 14,400 pesos (US\$ 3.03 at the average exchange rate of the past quarter) per kilo of dried parchment coffee from Colombia is set, applicable as from December 2022.**