FOREWORD

This document is a practical analysis of sustainability through entrepreneurship development in the area of sustainable agriculture. It relates to my area of concentration by providing a preliminary marketing plan for Las Nubes Shade-Grown Coffee; which allows linking the concepts of business under a context of sustainable development.

ACKNOWLEDGEMENTS

First and foremost, I would like to thank my project supervisors, Howard Daugherty and Pat Bradshaw, who have helped me in a long process… wow! We made it!!!

Howard, thank you, really. You have been my advisor, but you have also been a friend to me. I admire your knowledge, and I am grateful to have had you for this time as a mentor. Your support through my Academic Career has meant a great deal to me. I hope that this document helps you in your effort to fight for the beautiful region of Las Nubes.

Pat, you are incredible! I have learnt so much from you in this year. First you were my professor, and then my supervisor. I consider myself lucky to have had the support of someone like you. Thank you for all the giving the advice that I so desperately needed during this project. I hope that in the future we can go out for a nice cup of Las Nubes Shade-Grown Coffee!!

I would also like to acknowledge the Tropical Science Centre for their amazing collaboration to my research. Particularly, I would like to thank Sonia, you are such an information treasure box! Julio, thank you for your guidance. Cynthia, thank you for answering my questions.

I thank all others who, in one way or another have helped me so much along the way, you have a special place in my heart.

ABSTRACT

This document is the preliminary marketing plan for the sale and distribution of Las Nubes Shade-Grown Coffee. It is to be used for the creation of the implementation of the strategic marketing plan.

The first three sections of this document is intended to provide background information on the current coffee market crisis. Because so many developing countries are dependent of coffee as the major export for generation of income, it presents a challenge to the goals of Sustainable Development. The opportunity to receive better prices in sales through specialty coffee market may be a solution to this challenge. Although it is a temporary response to the crisis, small coffee farmers are required to add the component of sustainable through the diversification of their farms. In doing this, the farmer is no longer dependent on coffee, and has the chance to get better returns on their investments.

The Last two sections are in regards to the purpose of this study, the case of "Sustainable Coffee" is explored through the promotion of Las Nubes shade-grown coffee. The purpose of this preliminary plan is to find a niche market for the coffee of two local farmers in the region. This will aid in the future establishment of a model farm and contribute to the conservation strategies of Las Nubes Centre for Neotropical Conservation and Research.

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SECTION I - THE CURRENT COFFEE MARKET CRISIS

Basic economics has taught us that a market fundamentally functions on supply and demand, which in itself are the factors that affect price. The case of coffee is no different. The coffee economy is now facing a low market price and its effects is severely felt by the producing countries where coffee is the major export. This section is to explain what is currently going on in the coffee market economy. Not only does it look at the current issues of supply and demand, but at the factors that have led to this volatile market. To elaborate more on the topic of the coffee crisis, I proceed to explain the trends in the coffee economy in terms of regulation. In this latter part, I also look at what is currently being done in order to stabilize the market, based on recommendations by the International Coffee Organization and risk management tools provided by the World Bank. Finally, to understand more on how the coffee industry functions in relation to the market, I will also provide a brief explanation of the actors involved in the coffee industry, the marketing systems, and the barriers for the distribution of processed coffee from exporting countries.

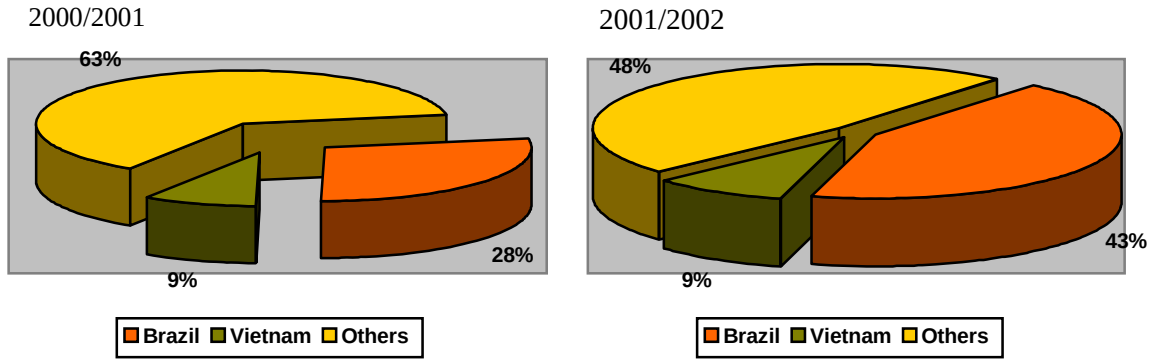
1.1 Affecting Factors on Coffee Market Volatility

The current coffee crisis can be attributed to a saturated market, where the demand continues to be at a low level in relation to product availability. The oversupply in the market is due mostly to a product surplus from the world's two major exporters, Brazil and Vietnam. The oversupply has allowed importing countries to build coffee stock, and advances in roasting technology now allows lower quality beans to be used in processing (Sorby, 2002).

In reports published by the International Coffee Organization[1], the total world production for the coffee year[2] of 2000/2001 reached approximately 115 million bags. Of the 115 million bags produced, Brazil produced 32 million bags, which accounts for 28% of the total world coffee production. Vietnam produced 9.7% at 11 million bags. For the year of 2001/2002, of

[1] Coffee market reports for the production years of 2000/2001 and 2001/2002.
[2] Coffee year begins October 1st and ends on September 30th of the following year.

114.9 million bags produced, Brazil was responsible for 43% (46 million bags) of the total world production, while Vietnam represented 9% at 10 million bags.



Unfortunately, the corresponding market demand has not been increasing significantly to offset this rise in supply. For the production year of 2000/2001, the demand reached 86 million bags, while for the year of 2001/2002 it increased to only 88.3 million bags. Also, it is estimated that for the year 2002/2003 production will be about 119 million bags, with a demand for only 108 million bags[3]. Nestor Osorio stated that demand has been growing at a 1.5% per annum, while supply is growing at a 3.6% per annum. The UNCTAD report on coffee market economy (1995) has also stated that the demand is not only stagnant, it has also declined. This drop in demand has been mostly affected by the availability of stock, as well as consumers having other beverage options that have replaced coffee (like tea and soft drinks).

This explains the current price drop, but it doesn't really explain much about the volatility of the market. The instability is actually a result of a series of other factors:

- **Crop volume:** The yield in production may or may not coincide with its movement within the market. It is highly susceptible to weather, trade, environmental and economic conditions.

[3] According to Nestor Osorio, Executive Director of the International Coffee Organization.

- **Stock levels:** The high volumes exported by Brazil and Vietnam have allowed importers to build up stock, taking advantage of lower market prices. (See Trends in the Coffee Economy for further explanation)
- **Supply inelasticity:** Although the prices in the market may rise or fall, it hasn't affected the volume produced by exporting countries.
- **Speculative trading:** The price in the market is based on the futures market.
- **Changes in consumption patterns:** Which has been highly determined by population size, price competition from substitutes, and per capita disposable income.
- **Demand inelasticity:** The demand has not been affected by the rise and fall of prices.

Supply and demand are important elements to the current coffee crisis. The succeeding topic will elaborate on the measures taken to balance the coffee market and economy.

1.2 Trends in the Coffee Economy

During the 1960s coffee prices fluctuated at a moderately high level. Because of this, in the 1970s new plantations of coffee were promoted through development aid institutions, as well as encouraging the expansion of farms and exports. By the 1980s many countries in Latin America, Africa and Asia had adopted coffee production as the base for their economies. Production of the farms promoted during the 1970s commenced to reach high levels, creating a surplus in relation to consumption and allowing the accumulation of stock. Twenty years later the coffee economy still faces that same challenge of imbalance between supply and demand. Figure 1 shows how production has varied between 1968 and 2001.

To avoid volatility of the market, many governments created an initiative to control it as well as the prices. This initiative, denominated the International Coffee Agreement (ICA) started in 1962 and continues to be used to this day. The ICA 1989 is of great significance to the current market crisis. I will now provide a brief summary of the different agreements since 1962.

- International Coffee Agreement for 1962 and 1968

This first agreement is the result of the Coffee Study Group's negotiations for the export and import of coffee. Its duration was to be of five years, and it was extended twice. It promoted activities to increase consumption and imposed a quota system that regulated the supply in relation to price and demand. According to the quota system, if the supply was higher than the actual demand, the excess was withheld to balance stability. This Agreement was an important contributing factor to allow producing countries to strengthen their economies between 1963 and 1972. However, due to changing patterns in the economy, the quota system collapsed in 1973, which was an issue of great deal for the negotiation of the following 1976 agreement.

- International Coffee Agreement 1976

During 1975, when this agreement was being negotiated, the supply of coffee was low. This was mostly the result of severe frost in Brazil, who at the time was one of the world's biggest supplier. Because supply was low, the price in the market was high. In order to consider external and uncertain influencing factors on production (such as weather conditions), the 1976 Agreement reintroduced the quota system. This time, the system could be suspended if the prices were high, and re-implemented if the prices were too low. The success of this agreement provided a good basis for the negotiation of the 1983 Agreement.

- International Coffee Agreement 1983

Because of the quota system in the 1976 Agreement, prices managed to fluctuated between the range of 120 US dollar cents/lb and 140 US dollar cents/lb. Despite this success, by 1989 when it was time to re-negotiate before this agreement expired, the parties involved were unable to reach a consensus on the economic measures. Consequently, the 1983 Agreement was extended for another two years (1989-1991), but the quota system and other control mechanisms were suspended. It was the removal of this quota system that caused the price to drop to half of previous levels, and it continued to fall for the next four years.

During this time (1989-1992) the producers sought to compensate for the price decline by expanding their exports (including selling their own stock to cut costs on this side). This wave of excessive product availability at a low

Coffee Year	Price per 100 lb (US Cents)
1989/90	81.2
1990/1991	74.3
1991/1992	77.8
1992/1993	77.9

The two-year extension was to allow accord on a new agreement; unfortunately it was not reached. So the Agreement was extended for 1993 and subsequently for 1994. This lack of accordance between parties marked a profound change in the focus of subsequent agreements.

- International Coffee Agreement 1994

Because there was conflict about the definition of price regulating mechanisms definition, the 1994 Agreement focused on international cooperation rather than price control. It concentrated on the areas of increasing membership, increasing coffee market information, project sponsoring, and studies and surveys. The projects fostered promotion of coffee consumption particularly in the Chinese and Russian markets; they were also aimed towards improving production and combating pests. It also established the need to have a yearly World Coffee Conference, and a Global Research Network. Funding was directed towards studies and publications. In 1999, the Agreement was extended for another period of two years.

- International Coffee Agreement 2001

New initiatives in this Agreement included developing a sustainable coffee economy in member countries, promotion of domestic consumption, quality endorsement and technology transfer. It calls for the improvement of living and working standards in producing countries, and seeks to expand private and government sector interaction in future World Coffee Conferences.

Between the years of 1989 and 1993 the coffee prices plummeted to an all time low for that period; for 1994 the prices where high. The increase in price is mostly the result of a severe frost in Brazil and an agreement from the Association of Coffee Producing Countries to apply a retention scheme that affected exports and stocks[4].

Coffee Year	Composite (US Cents/100 lbs)
1997/1998	132.51
1998/1999	95.82
1999/2000	71.94
2000/2001	41.17

Source: ICO

It is important to highlight this event, as it the rise of 1994 prices allowed producers to "forget" the last price crisis, and they continued to produce more for both domestic consumption and for export. It is between this time and the production year 2000/2001 that Vietnam became the second largest producer following Brazil. This phenomenon has allowed stocks to be built again, and it has also introduced a lot of low-quality beans that are now better processed with new roasting technology improvements. Today the coffee price in the marketplace is at a 100 year low (Sorby, 2002).

Once again coffee regulating institutions are calling for a control of supply in the market. In response to this, the International Coffee Organization has created a Coffee Quality-Improvement Programme that has come into force as of October 1st 2002. It plans to rationalize the quantity of product available by implementing strict export standards. It also aims to the remove poor quality coffee from the market; particularly those beans that do not meet the defects and moisture content standards. The Coffee Quality-Improvement Programme is also innovative by requiring member countries to promote diversification of income sources; as well as promoting domestic consumption rather than export. Annex 2 contains a copy of the Coffee Quality-Improvement Programme for further reference.

Next to this initiative, the World Bank has launched in exporting countries a programme based on price risk management tools. Amongst those tools favoured, there are three types of contracts that producers/exports can use to avoid price fluctuation:

[4] See Annex 1 for more on the Association of Coffee Producing Countries Retention Scheme.

- **Forward contracts:** This is an agreement to buy or sell a certain amount of coffee by a specific date upon which delivery and payment is made. Prices are predetermined. The downside to this type of contract is that depending on the market price at the time the transaction is made, there is a risk of loss for the buyer or the seller.
- **Future contracts:** The negotiation of this contract is based on the futures market and can be negotiated daily. The quantity, date and place are specified. The principle behind this type of contract is to provide protection against market uncertainty; but it is based on speculative trading.
- **Options contracts:** For this contract a strike price is set with a premium equivalent. The strike price is the price that a specific quantity can be sold at on a specific date. The premium equivalent is set to ensure fairness in price if the floor price drops or rises. This type of contract is best explained in the document Risk Management for Coffee Price Fluctuations (ICO 2000):

> *A cooperative coffee producer plans to sell their coffee in January of 2001. The strike price is set at US$800 (a tonne[5]) with a premium equivalent of US$40 (a tonne). If in January 2001 the price has dropped, the cooperative has the option to sell its product at US$800 minus the US$40 premium, at US$760. If the floor price has risen to US$900, then the cooperative will receive US$860 a tonne.*

The option contract seems to be the most accommodating type of contract for the producers, but the development of these contracts is expensive and not affordable for all producers.

In conclusion, the urgency of controlling price fluctuation has been felt and it is now part of the coffee market development strategy. The International Coffee Agreement of 2001 aims to address a series of issues to minimize the impacts of price fluctuation on depending economies, and programmes like the Coffee Quality-Improvement Programme seek to get control the flow of supply; however to fully understand the structure of the coffee economy it is necessary to also look at the interacting elements of the industry, the market systems, and the issues faced in the distribution of processed coffee for export. These topics are explained in the following segments.

[5] The equivalent of a metric ton, which equals 1000 kg.

1.3 Elements of the Coffee Industry and Marketing Systems

The production of coffee and the marketing systems involve a network of actors with different functions. The actors that I have identified through a series of documents are the producers (growers and exporters), the importers, roasters and retailers. The growers are the firms, countries and associations that are involved with the production and exportation of green coffee beans. The importers (also considered by some as the brokers) are in charge of supplying the product to roaster wholesalers and retailers. The roaster wholesalers are those companies in charge of roasting the green bean and that distribute it to the coffee outlets for sale, at both domestic and international levels. Finally the retailers are those that sell the product in the form of whole beans, ground or beverage to the customer. The retailers can also do their own roasting.

In the previous paragraph I did not specify on the specific role of government agencies. These agencies can act as brokers for both green and processed coffee, and can affect the price formation through coffee policies. Their role is mostly determined by the type of marketing system in place at the producing countries. There are two kinds of marketing systems. The first kind is an "open" market system. In it, producers and cooperative manage the market and export of the coffee at prices that follow the world market. Here, the Government will generally only be involved in handling tax collection, quality control and coffee-related currency flows.

The second kind is the "controlled" marketing system. In it, market and export is done through boards and institutions in the national/domestic market. Usually the institutions that make up these boards are those that deal with coffee matters by accumulating stock or subsidizing the world price differences; guaranteeing a minimum price to growers. It is important to note that poor administration of stock by these institutions can affect the world stock and price volatility discussed in previous segments.

1.4 Expanding the Coffee Industry: Barriers for the Processed Export Coffee Development

Producing countries have tried to diversify their coffee producing economy by expanding the industry into the export of processed coffee. Coffee processing is done mostly by the importing countries who impose trade barriers don't allow this strategy to be a significant source of export income. Generally these barriers are in the form of tariffs, non-tariffs measures, and internal taxes. They are imposed as a way of restricting trade of this type of coffee and to avoid competition for their own processed coffee industry. At the same time, the major processing countries are exporting their processed coffee to the producing countries (in the form of soluble coffee). For producing countries now have to compete against the importing countries in the form of multinational corporations who have also set standards on the production of this very same product.

Conclusions on the Coffee Economy

As it has been explored in this section, there are a series of factors that have led to the current world coffee crisis. I have also elaborated on what is being done to face this crisis, particularly in the form of additional programmes that monitor quality control at an export level for the regulation of supply, and that provide tools for risk management during price fluctuations.

The current crisis is due mostly to the imbalance between supply and demand. Nonetheless, there are other underlining factors that have influenced the volatility of the market. From a surplus in exports, to the fall of international supply control mechanisms, the coffee economy has had its shares of ups and downs. For the moment, producers are faced with the lowest price on the market in 100 years. In response to this situation, the International Coffee Agreement of 2001 has now identified the need to have a diversified production economy, so that those dependent on coffee don't suffer much impact of the market instability. The Coffee Quality-Improvement Programme for the International Coffee Organization, and the Risk Management Tools Programme from the World Bank also seek to alleviate the situation at a market level, addressing issues during export and setting predetermined prices for their sale.

Still, the situation is grave, and the producers are looking at alternate markets to sell their product. They also seek to differentiate their products through denominations like organic, shade and fair trade. Section II of this document will elaborate more on this alternate market called the specialty market and the opportunity that it offers to sustainable coffees.

SECTION II - THE SPECIALTY COFFEE MARKET: A PLACE FOR SUSTAINABLE COFFEE

In Section I, The Structure of the Coffee Economy I reported that many coffee producers are now planning to sell their coffee in the specialty coffee market. Section II will look at the definition of the specialty market and explore whether its market is place for the sale of sustainable coffee. For purpose of this report, I define sustainable coffee as the kind produced and processed with environmental and social concerns in mind. Within this section the themes of organic and fair-trade production and certification are briefly discussed; however, the matter of shade coffee is not. Please refer to Section III for more on sustainable coffee systems. Finally, this section will also elaborate on the Specialty Coffee Association of America's initiative of supporting sustainable coffee in the Mesoamerican Biological Corridor region.

2.1 Specialty and Sustainable Coffee

Despite the stagnant demand for coffee in the world market, the specialty sector continues to grow while demanding a higher price for coffee that meets high-quality standards. Don Holly, Director of the Specialty Coffee Association of America defines specialty coffee as that that comes from a specific demographic microclimate and has unique taste. Starting at origin, specialty in coffee is defined from the green beans with no defects to a distinctive character in the cup. The Specialty Coffee Association of America (SCAA) determines specialty though their Green Coffee Classification Chart and through the SCAA Roast Colour Classification System, assuring quality at levels of production and processing.

The specialty coffee industry has been an important tool for the expansion of the coffee market by targeting the kind of consumer who shows preference for the *Arabica spp.* coffee product, and that is willing to pay a price extra per cup. Marketed mostly through specialty coffee shops, like Starbucks, Second Cup and Timothy's. According to SCAA reports, the retail sales in North America of specialty coffee beverages for the year 2000 reached US$5.3 billion, and US$2.5 billion for the sale of specialty coffee beans. Starbucks alone reported sales of

US$2.6 billion for the year 2001. It is yet to be saturated and sales are estimated to increase at 5%-10% per year (SCAA Survey, 2001).

SCAA also recognized for its addition of social and environmental components to its business model (SCAA 2002). In doing so, it has opened a niche for what is called sustainable coffee, defined in terms of organic, shade and/or fair-trade[6]. This type of coffee receives a price premium and aims to provide environmental, economic and social benefits to the producers. The global retail value for 2000 for sustainable coffee was approximately US$565 million (Giovannucci, 2001).

Below are definitions of organic, fair-trade and shade-coffee which are considered as different types of sustainable coffee:

- **Organic:** It is produced with methods that preserve the soil and prohibits the use of synthetic chemicals.
- **Fair-Trade:** It is purchased directly from the cooperatives of small farmers and guarantees them a minimum price at contract.
- **Shade:** It is grown under the shade of forest settings and is good for biodiversity conservation.

Table 3 shows the premiums paid for each type between the years 1999-2001.

Coffee Type	1999	2000	2001
Organic-Coffee	-	-	US$8.2 /100 lbs
Shade-Coffee	-	-	US$138 /100 lbs
Fair-Trade Coffee	US$126 / 100lbs	US$126 / 100lbs	US$126 / 100lbs

Source: Sorby, 2002

[6] Sustainable coffee can be one of the three or a combination of them all.

2.2 Production and Certification of Organic Coffee

During the production of organic coffee, the use of chemical fertilizers and pesticides is prohibited. Soil fertilization is based on using compost. Although organic doesn't necessarily mean shade, it tends to require shade for leaf litter required for fertilization of the soil during production, as well as for moisture retention and to act as habitats for natural enemies of coffee pests (pest control). For certification, each of the production and export stages are carefully audited and certified according to organic requirements.

Certification can be done through direct certification, co-certification and local certification (Sorby, 2002). Direct certification is done where an international certifying institution travels to the farms and export processing plants in producing countries. Co-certification is when certification is done through inspection by a local organization under the supervision of an international certification body. Local certification is done through a local institution accredited by an international certification entity.

The problem with certification at the production level is that it tends to be an expensive process that is not easily afforded by small local farmers. The International Coffee Association addressed this constrain in the International Coffee Agreement of 2001 through the importance of international cooperation. For more information on the ICA 2001 and how this issue is addressed, please visit the publications section at http://www.ico.org.

2.3 Production and Certification of Fair-Trade Coffee

Fair-trade is not about the production process of coffee, but is more about the negotiation of prices for trade. It seeks to establish a moral relationship between the consumer and the producer by bringing awareness of the social and environmental impacts of production. It is driven under the seven principles of fair-trade established by the Fair Trade Federation (see Annex 3).

For the fair-trade certification there is no cost for the farmer since it is the importers and roasters who are the ones who pay a license fee to offer fair-trade products. This fee covers the cost of certification.

2.4 The SCAA Initiative: Supporting Sustainable Coffee in the Mesoamerican Biological Corridor

In promoting the sale of sustainable coffees, the SCAA has also proposed an initiative to identify, source and sell coffees that contribute to the Mesoamerican Biological Corridor (MBC)[7] conservation objectives. According to the SCAA:

> *This initiative will depend on a three-way collaboration between coffee businesses (producing and consuming), non-government organizations, and donor agencies to insure transparency, efficient and effective project design, and economic viability.*

Named *The Paseo Pantera Initiative*, it is based on:

- The MBC principles on conservation and sustainable development.
- Coffee production that promotes the creation of sustainable livelihoods, energy conservation (including the use of renewable energies), waste management (reduce, reuse and recycle), reduce/vanish the use of chemicals in pest and disease control, biological and ecological conservation, soil protection, and water management
- To promote high-quality product production to ensure economic viability through added value and influence on consumer preference.

Success of this plan will depend on the creation of a sustainable coffee map for the MBC (using Geographic Information Systems), and the drafting of the Guide to Sustainable Coffee Certification and Marketing for Specialty Coffee (SCAA, 2002). This last instrument will act as an information bank on certification agencies and programs, NGO coffee business services, and supply chain management advice.

Conclusions on the Specialty Coffee Market: A Place for Sustainable Coffee

The purpose of this section was to provide background knowledge on the specialty coffee market in order to understand the opportunity for promoting sustainable coffee. I also elaborated on two kinds of sustainable coffee, leaving the third kind, shade coffee, for discussion in the following segment Shade Coffee: An Instrument for Conservation and Community Development.

It can be concluded that the place for sustainable coffee in the market is growing, and it's also becoming the main model for defining coffee production and influencing consumer preference. The element of sustainability is now an important component not only within the specialty coffee market, but also in the general coffee marketplace (through the financing of certification costs in the ICA 2001).

In relation to this project on marketing Las Nubes coffee, I believe that the time to promote this product is now, under specialty market considerations. In doing so, it will be possible to take advantage of the growing support for this activity and it will aid in securing a place in this niche market, while contributing to the Mesoamerican Biological Corridor conservation strategies. Although the general coffee market is requiring sustainability and diversification in production, it is still quite volatile and offers low prices. The price premium offered under specialty coffee denomination is an important element to achieving the sustainability goals of the Las Nubes project.

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[7] See Annex 4 for the Mesoamerican Biological Corridor Map.

SECTION III - SHADE COFFEE PRODUCTION SYSTEMS

3.1 Sun-Coffee Systems

During the mid-1970's, the practice of coffee cultivation shifted from a traditional[8] to technified or sun-coffee systems. Sun-coffee systems were introduced through development programs for agencies like the USAID. It makes use of hybrid coffee plants more tolerant to direct sun exposure with a higher production yield. Unfortunately, it requires the clearing of vast areas of forest that provide habitats for diverse insect, plant, mammal, amphibian, and reptile species. Even if these systems provide a higher production yield, it calls for larger amounts of inputs in the form of pesticides and fertilizers that later affect soil and water quality.

The removal of canopy trees also affected the soil quality, leaving the soil is exposed to direct rainfall and erosion, in addition to the disruption of nutrient cycles. The decline in soil quality required the use of agrochemicals that lead to the contamination of soil and water, and results in poisoning of local fauna by their introduction into the food chain. Furthermore, improper use and handling of agrochemicals used in the farms has negative impacts on the farmer's health. The pollution of water resources poses health hazards for the population downstream.

To the farmer, this system has high economic risk. The farmer fully depends on a single product as a source of income. Plus, there is a high maintenance cost, requiring high labour input for the application of herbicides, pesticides and fertilizers, and for pruning individual plants.

The world coffee market situation described in previous sections of this document, offers low prices to the small-scale farmers, which is often not enough to cover production costs. This situation is so grave, that the coffee producer would rather abandon the farm rather than

[8] The traditional method for growing coffee was under a canopy of trees, providing protection from climate variations, as well as biodiversity shelter and conservation, soil erosion prevention, soil replenishment, pest control, and humidity. The traditional coffee farm resembled a forest. Coffee was planted under fruit trees, bananas, and hardwood species.

harvesting the crop. Farmers also have difficulty meeting their living expenses, so they sometimes have to sacrifice their children's education.

3.2 Shade-Coffee Systems

Shade-coffee systems are characterized by the tree diversity that resembles that of a forest at the same time that it provides several environmental and conservation services. The resemblance of shade coffee plantations to natural forests offers bird species food diversity and nesting habitats. The agricultural estate also provides essential habitat for diverse communities of other non-avian tropical forest species. For example, reports from the Smithsonian Migratory Bird Centre, they have documented that shade coffee farms provide refuge to sixty-six species of neotropical birds, listed as threatened or endangered by the IUCN and CITES. (Messer, 2000). Subsequently, the leaf litter produced in this system acts like fertilizer and its diversity in species provides habitats for pest control, reducing the need for use of agrochemicals. It aids in controlling microclimate temperatures and humidity, assists in water retention and production, and reduces the loss of soil fertility to erosion and overuse. The mixing of leguminous trees species in coffee plantations help fix nitrogen in the soil. Fertility is restored through the re-establishment of nutrient regenerating cycles and the addition of organic matter in the soil. The presence of diversity in flora and fauna kind also assists in controlling pest and disease outbreak. Therefore the need for the use of herbicides, pesticides and fertilizers is reduced.

The environmental dimensions of coffee production seem to be the driving argument to switch back to shade-coffee farms. The opportunity offered by the specialty market provides another reason to make the transition to shade-coffee. According to the SCAA (2001), the retail value of shade coffee for the year 2000 was approximately US$28.4 million; offering a price premium average of US$138 per 100 pounds (Sorby, 2002). Denoted as a sustainable coffee it renders additional social and economic benefits.

By introducing to the farm other species like citrus, banana and other fruit species farmer is provided with alternate income sources. Continuous production during non-coffee harvesting

periods results from planting other species of medicinal, wood and construction material value giving the farm product diversity.

The extra income generated can then be re-invested in the farm, used for improving the farmer's living conditions, and spent in community development programmes. The social benefits can be best appreciated in the region of Monteverde, Costa Rica. Guillermo Vargas, director of Cooperativa de Café (COOCAFE) in Monteverde expressed to me how they have benefited from selling their shade-coffee in the specialty coffee market. COOCAFE has been selling their coffee as certified shade-organic for the past ten years through Montana Coffee Traders. They receive approximately $126 per quintal oro[9], after all other expenses deducted, they receive about $70 per quintal oro. From these $70, $0.50 goes to their local forest management fund and $1.50 is allocated into the scholarship fund created for the families' children.

3.3 Certification of Shade Coffee

Certified organic coffee can secure a premium of about 15 percent above the regular market price of coffee. Certification is based on the Smithsonian Migratory Bird Centre requirements of a minimum of ten native tree species and a minimum shade cover of 40% in the planted area (Sorby, 2002). The cost of this process is according to the certification agency and ranges between US$40-US$100 a day for an inspection period of 3-5 days. Most small-scale coffee growers cannot afford these costs, which impedes the transition to shade-coffee systems.

Please refer to Annex 6 for an example of a certification application under the Rainforest Alliance Certification Programme.

[9] 1 quintal oro = 101 lbs.

SECTION IV - DESCRIPTION OF THE PROJECT AREA

The study for Marketing Las Nubes Shade-Grown Coffee was carried out in the regions of Las Nubes and Los Cusingos, Costa Rica.

4.1 Las Nubes

Las Nubes Rainforest is a tropical forest donated to York University by Dr. Woody Fisher. It is a 400-acre property that allows FES students the opportunity to participate in research and conservation efforts under the guidance of FES professors and the Tropical Science Centre in San José, Costa Rica.

Las Nubes is located on the Pacific slope of the Talamanca range in Southern Costa Rica, an hour outside the city of San Isidro de El General. To the northeast of the property is Chirripó National Park, which continues into La Amistad, an international biosphere reserve that Costa Rica shares with Panama. Las Nubes thus forms part of one of the largest rainforest ecosystems in Central America (http://www.yorku.ca/lasnubes/).

4.2 Los Cusingos

Los Cusingos Neotropical Bird Sanctuary was owned by Dr. Alexander Skutch and later purchased by the Tropical Science Centre, partner to York University's Las Nubes Centre for Neotropical Conservation and Research. An area of 78 hectares of lowland tropical deciduous forest in the south part of Costa Rica (see map above), it has been highly affected by surrounding deforestation due to sugar cane and coffee production. (www.yorku.ca/lasnubes)

4.3 Las Nubes Centre for Neotropical Conservation and Research Programme

Strategies of this Programme are established in accordance to the Las Nubes Centre for Neotropical Conservation and Research values on conservation, research and education. Shade-coffee production is one of the many activities promoted by the Centre in accordance to the local communities around Las Nubes and Los Cusingos who depend on the cultivation of coffee as their main source of income. On this topic, the Centre's objectives are:

- To link conservation and business through tangible results.
- Promote a shift from technified sun coffee to shade organic coffee in the region.
- To promote product diversification of the farm so that growers don't depend on one specific product (in this case coffee).
- To provide specialty coffee market price and access to the producer.
- To sell this coffee in the Toronto market with support from York University and a reputable coffee retailer, in order to gain market trust.
- To get financial resources to subsidise the transition of technified to shade in the region.
- To get financial resources to purchase more land in the region and designate it towards conservation.

The coffee intended for marketing will come from two farms near Las Nubes and Los Cusingos regions:

Farm "La Escondida"

Owned by Mr. Luis Angel Rojas, there is 1 ha of shade-coffee that has been planted for six years now. Amongst the species used for shade are a variety of *Leguminacea spp.* and precious wood species like oak wood and other precious woods.

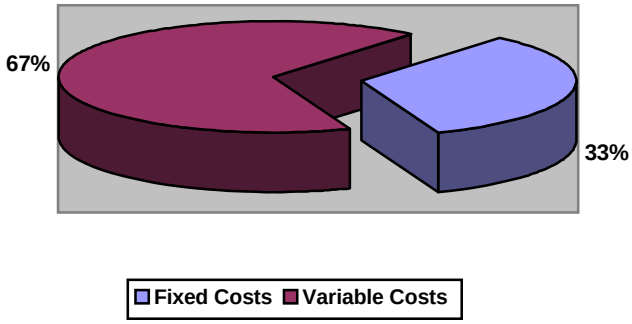
Guzman Family Farm

The cultivated area at this farm is of 7 ha for the past two years. Shade species are oranges, bananas, eucalyptus, corn, poro and species of the *Leguminacea spp.* kind.

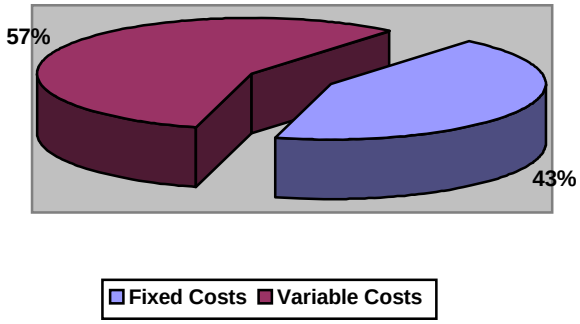
This project has also given consideration to the production costs for 1ha of shade-coffee vs 1ha of sun-coffee. It is based on a cost analysis model developed by Williams Portilla for the ICAFE (Costa Rican Coffee Institute) for the month of June 2001[10].

Figure 3 depicts the result of this analysis. Please refer to Annex 5 for breakdown of costs. After reviewing the considered costs, it is concluded that shade-coffee production requires 10.13% less investment than sun-coffee production. The presented analysis should be used for estimating the cost of establishing a model farm in the Las Nubes and Los Cusingos region.

[10] The Model used was the last version produced by ICAFE during the time of research.



Sun-Coffee Costs



Shade-Coffee Costs

SECTION V - MARKETING LAS NUBES SHADE-GROWN COFFEE: PRELIMINARY ASSESSMENT FOR A STRATEGIC MARKETING PLAN

This section is to provide guidance for the development of a concrete marketing strategy for the Las Nubes shade-coffee. It contains a definition of the mission statement, the project's objectives and goals, and seeks to determine underlying elements for a core marketing strategy.

The strategy proposed to follow in this preliminary marketing plan is customer oriented[11] in order to anticipate the targeted market's needs and wants and seeks to offer a high-quality product in a way that may prove to be suitable to the customer's desire. The project also recognises that it is in the business of influencing the coffee consumer's behaviour in order to promote the sustainable specialty coffee market. For the purpose of this Project, the customer is defined as York University's community.

5.1 The Market Opportunity

The specialty coffee market has opened the door for sustainable coffee[12] and continues to emphasize its requirements for environmental and social responsibility in the production of coffee. The International Coffee Organization is also requiring general[13] coffee producers to add the element of sustainability to the production sector.

After reviewing the growing specialty coffee market in Section II of this document, and considering the growing demand in York University's community and Toronto for sustainable coffee options, it may be stated that there is an opportunity for Las Nubes coffee to be marketed in that sector. Las Nubes coffee meets social, economic and environmental requirements to be

[11] According to Phillip Kotler and Alan Andreasen (1996) on the topic of marketing philosophy.
[12] Organic, shade, and/or fair-trade coffee that renders economic, social and environmental benefits to the producing region and farmers.
[13] Specialty coffee is of the *Arabica spp.* kind; general coffee is of *Arabica spp.* and *Robusta spp.* kinds, and is traded in the world coffee market.

branded as specialty, and coincides with the SCAA's initiative on promoting sustainable coffee[14]. Please refer to Section II of this document for more on the SCAA initiative.

This product would offer the York Community a product of high-quality and good taste, which will also be chemical-free, contributes to the Las Nubes Conservation Programme[15] that subsequently benefits conservation in the Mesoamerican Biological Region[16], and providing fair-trade prices to the small-scale consumer of the Las Nubes region. If possible, it could also offer a major coffee distributor in the Greater Toronto Area the opportunity to meet their customer's demand for sustainable coffee, while providing them with a distinct product for their differentiation from other distributors.

5.2 Mission, Objectives and Goals

The mission statement is defined according to what the project Marketing Las Nubes Shade-Grown Coffee seeks to accomplish in order to contribute to the Las Nubes Conservation Programme. Sustainable coffee is the business for this project, and it aims to reach the educated consumer at the same time as it promotes consumer preference by providing an option of organic, fair-trade coffee.

The objectives presented here are set as the Project's primary objectives, and are in relation to the Programme's conservation strategy. The Goals have been set within a short-term timeframe, but because this is only a preliminary study, they might change once the final core marketing strategy is development and a marketing plan is implemented.

Mission Statement

To provide educated consumers with the option of buying shade-grown and organic coffee which is premium quality and traded at or above fair trade price to small producers.

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[14] Please refer to section II:The Specialty Coffee Market: A Place for Sustainable Coffee for more on the SCAA's initiative of sustainable coffee.
[15] For more information on this Programme, please contact the Las Nubes Centre for Neotropical Conservation and Research Programme. Contact information can be found at www.yorku.ca/lasnubes
[16] See Annex 4 for Mesoamerican Biological Corridor Map.

Objectives

In marketing Las Nubes shade-grown coffee, the following objectives have been identified:

- To enhance the market for specialty coffee (shade grown organic) by educating North American consumers of the sustainability values of this coffee, beginning with the York University community and creating a link between Las Nubes coffee and the stated goals and principles of York's sustainability policies.

- To promote the production of sustainable specialty coffee on small farms in the Las Nubes/Los Cusingos region of southern Costa Rica, which is the focus of a York University/Tropical Science Centre program in research and conservation.

- To investigate the possibility of expanding the definition of customer to include a major coffee distributor in the GTA.

Goals

- To market Las Nubes coffee at York University beginning early in 2003 as soon as is practical after the December 2002 harvest has begun.

- To promote Las Nubes coffee at York and carefully selected focal points within the Toronto area beginning in January 2003.

- To define a mechanism for marketing Las Nubes coffee within a larger portion of the GTA during 2003, either in conjunction with a major distributor of coffee or through the establishment of a separate company.

5.3 The Core Market Strategy

The Project's Core Marketing Strategy sets out to define our targeted market, the competitive position, and to identify the marketing channels for its implementation.

Target Market

For this Project the York University Community has been set as the target market. It already counts with the support of York University's President, Lorna Marsden. York University will aid in facilitating the promotion of Las Nubes Shade-Grown Coffee on campus by offering it at events and York's catering services. It will contribute to York's Sustainability Programme and is in conjunction to York's slogan: "Redefine the Possible".

In the future this Project also sets out to establish business with a major coffee distributor for expanding into the Greater Toronto Area.

Competitive Position

In considering the competitive environment in which the Project will be involved, it seeks to create a competitive strategy based on product differentiation and focus[17].

- **Differentiation:** The product will not only meet shade, organic and fair-trade standards, it also has an academic and conservation component. Not only will it aid small-scale farmers in the Las Nubes region through better prices and market access, it will also generate financial resources for the funding of future projects in region. The success of the Las Nubes Conservation Programme is beneficial to the Mesoamerican Biological Corridor conservation initiative.
- **Focus:** The marketing of Las Nubes Shade-Grown Coffee will begin within York University. Furthermore, if support from a major distributor is achieved, then the product will be marketed in that distributor's market segment and follow their marketing strategy.

[17] Based on Michael Porter's book *Competitive Strategies: Techniques for Analyzing Industries and Competitors.* 1980.

Marketing Channels

The channels determined for the sale of shade grown coffee answers the questions of where? How? As it was stated in target market, the project seeks to start with the York University Community by being offered at events and through catering. The possibility of selling it at kiosks, cafeterias, and the bookstore is still being determined (depends on what is harvested in the region for the coffee year of 2002/2003). A price for the product is still to be assigned. Annex 6 contains a list of Contacts to be considered for the following market channels.

Coffee Producers: The product to be market will come from two farmers from the Las Nubes and Los Cusingos regions. Production capacity is estimated to be approximately 21,900 lbs. Please refer to Section 4: Description of Project Area for more information on farms.

Beneficio: The harvest coffee cherry will be processed at the beneficio[18] owned by the Cooperativa Agricola (COOPEAGRI).

Importers: York University, through the Las Nubes Conservation Programme will be in charge of importing the coffee been from Costa Rica to Toronto.

Roasters: There are two types of roasters to be considered: roaster wholesaler and roaster retailer[19]. The roaster wholesaler roasts for distribution to a retailer. A roaster retailer is a store able to roast its own coffee for sale.

Retailers: Coffee retail outlets for the sale of Las Nubes shade-grown coffee.

Conclusions and Future Recommendations

The support from York University facilitates the implementation of this Project. Even though the quantity available at the start of this Project is low, it is enough to be distributed at York's events. This Project starts with the establishment of a model farm in the region of Las

[18] The beneficio is a local processing plant that uses wet or dry methods for the extraction of the coffee bean from the cherry.
[19] As defined by the SCAA.

Nubes and Los Cusingos, and if proven successful, other small-farmers in the area will be invited to join, increasing the supply. As the amount of production continues to grow, the Project will be able to investigate possibilities of expansion into a greater market.

Although this study is to be used as a guide for the final strategic marketing plan, there are still some elements that need to be re-visited and reconsidered before Las Nubes shade-grown coffee can be introduced into the specialty coffee market. First and foremost, the position of Project Director needs to be created. This will facilitate the implementation of the plan in terms of distribution and purchasing agreements between York and the Producer. It will also contribute in defining how the promotion of the coffee on Campus will be. Details like giving the coffee for free in exchange of other services like subsidising kiosk establishments should be properly defined.

In addition, further investigation on importing contracts and distribution will need to be reassessed. Key distributors for the GTA need to be identified by the assigned Project Director in order to explore the expansion of the Project into a greater market. Annex 7 provides a general profile of three of the major coffee distributors for Toronto and could be used for exploring future distribution channels.

I also emphasize the need to establish a marketing information system and control system to track performance.

The Marketing Information System (MIS)

The purpose of this system is to acquire adequate market information in order to continue redefining the overall marketing plan in accordance to the customer's needs and wants. There are four subsystems to the MIS (Kotler et al. 1996):

- **Internal reports:** These are reports include, but are not limited to records on purchase and sale prices, as well as records on the number of farms added to the Las Nubes Conservation

Programme initiative on sustainable coffee. Records on production in the region are necessary in order to determine production capacity.

- **Marketing Intelligence Systems:** Provides information on what is happening in the coffee market (both world coffee market and specialty market). It also provides updated information regarding new developments on the production of sustainable coffee, and other similar projects in the area carried out by other institutions and businesses.
- **Market Research:** Supplies information on how the product was accepted by the consumer through instruments like surveys. It also gathers information concerning consumption quantities in order to anticipate demand.
- **Analytical Marketing Systems:** It is designed to process the information available through the other systems in order to make informed decisions for the future.

Control System

Establishment of this system is required in order to measure performance in relation to the objectives and goals set. Used next to the MIS, it will allow tracking of changes in the market environment and product reception from the consumer. Performance will be measured through information on sales and expenses, customer satisfaction and market share. Negative information (like indication of poor sales) identified through this system will allow corrective action to take place.

Finally, the importance of this Project is not only to the conservation benefits in the region, but to prove that investing in development and the creation of sustainable livelihoods can at the same time be profitable. There is a role for business in development, and in this case it will not only take advantage of the specialty coffee market opportunity, it will also strengthen local communities by diversifying their income sources. Diversification in coffee farms is done through the planting of other products like banana and wood trees, this allows the farmer to have different products to sell as sustainable products for other specific markets. The farmer will no longer depend only on coffee. The additional income is invested in the betterment of their farms and community, and will allow them to improve their living standards.

FUTURE REQUIREMENTS

Future research is required for the implementation of a strategic marketing plan. Although important aspects of the marketing plan have been identified, there is still a need to establish a marketing information system and control system to track performance.

The Marketing Information System (MIS)

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- *Internal reports:* These are reports include, but are not limited to records on purchase and sale prices, as well as records on the number of farms added to the Las Nubes Conservation Programme initiative on sustainable coffee. Records on production in the region are necessary in order to determine production capacity.
- *Marketing Intelligence Systems:* Provides information on what is happening in the coffee market (both world coffee market and specialty market). It also provides updated information regarding new developments on the production of sustainable coffee, and other similar projects in the area carried out by other institutions and businesses.
- *Market Research:* Supplies information on how the product was accepted by the consumer through instruments like surveys. It also gathers information concerning consumption quantities in order to anticipate demand.
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ANNEX 1
PRODUCTION RETENTION SCHEME
UNCTAD: RECENT TRENDS ON THE COFFEE MARKET
1995

(ii) Producers' Retention Scheme, 1993

166. Following the collapse of talks to renegotiate a new international coffee agreement in March 1993 the Central American countries (Costa Rica, Nicaragua, El Salvador and Guatemala) worked out a plan designed to improve coffee prices through an export retention scheme and production control. The plan, later joined by Brazil and Colombia, was for Central American countries to withhold 15 per cent of their production, while Brazil and Colombia were to limit their exports to 17 million and 13 million bags (which represented respectively a 10 and 20 per cent decrease in comparison to these countries' coffee exports in 1992.) A more recent proposal, which superseded the earlier agreement, came from Brazil and was adopted by Latin American coffee producers. According to this scheme, Latin American coffee producers were to retain 20 per cent of their exports starting from October 1993.

167. At the same time, the African producers took with their own initiative. In April 1993, IACO created a committee of experts from Côte d'Ivoire, Kenya, Zaire, Uganda, Togo and Angola which introduced a plan of action defining their alternative mechanism to regulate the market. The plan was to retain 15 per cent of their exports. This plan was supposed to be adopted by the IACO member-countries and to become operational by the beginning of the coffee campaign in October 1993.

168. In view of the lack of progress in the negotiations for a new coffee agreement with economic provisions, Latin American and African producers, later joined by Indonesia, began discussions in June 1993 on a joint agreement to withhold part of their exports from the market in the 1993/1994 season. In September 1993, an agreement was reached on the modalities of the retention scheme and the statutes for the newly established Association of Coffee Producing Countries (ACPC).

169. The 28 members of ACPC are Angola, Bolivia, Brazil, Burundi, Cameroon, Central African Republic, Colombia,Congo, Costa Rica, Côte d'Ivoire, Ecuador, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Honduras, Indonesia, Kenya, Madagascar, Nicaragua, Nigeria, Rwanda, Togo, Uganda, United Republic of Tanzania, Venezuela and Zaire. The Agreement establishes initial and final price ranges. The initial aim of the scheme is to withhold 20 per cent of exports from the market until the 20 day moving average of the ICO composite indicator price reaches 75 US cents/lb. The retention would be reduced to 10 per cent when this price reaches the range of 75.01-80 US cents/lb. When the price reaches the range of 80.01 US cents/lb the retention scheme would be suspended, and when prices are above 85 US cents/lb, stock releases are envisaged.

ANNEX 3
SOURCE: TRANSFAIR (2002)

The Seven Principles of Fair trade

1. Fair wages.
2. Cooperative workplaces.
3. Consumer education.
4. Environmental sustainability.
5. Financial and Technical support.
6. Respect for cultural identity.
7. Public accountability.

ANNEX 5
COSTS BREAKDOWN SUN VS SHADE
SOURCE: ICAFE*

SUN-COFFEE PRODUCTION COSTS PER HECTARE
(in Colones)

Sun-Coffee Description	**Labour Hours**	**Labour Cost**	**Total Cost**
I. Variable Costs			
Cultivation			
Prunning	48	321.25	15420
Shade Maintenance	36	428.33	15419.88
Stump removal	12	428.33	5139.96
Hoyada	6	428.33	2569.98
Re-planting	8	321.25	2570
Plage and Disiease Control	54	428.33	23129.82
Fertilizer Application	28	321.25	8995
Herbicide Application	20	428.33	8566.6
Weeding	12	428.33	5139.96
Enmiendas	12	321.25	3855
Deshijas	40	321.25	12850
Arrangement of Wind Barriers	18	428.33	7709.94
Soil Conservation	30	321.25	9637.5
Subtotal	324		
Other Social Expenses			31098.07
Total			152101.71

Recolection and Transportation	**Total Cost**
Recolection	204000
Transportation of Cherry	54869.2
Transportation of Labour Materials	12789.9
Total	271659.1

Costs of Other Materials	**Quantity**	**Unit Cost**	**Total Cost**
Replanting (# of plants)	140	31.11	4355.4
Fertilizer (complete formula) (kg)	650	80.1	52065
Nitrogenized Fertilizers (kg)	250	77.58	19395
Calcium Carbonate (kg)	500	11.25	5625
Fungicides (L)	7	19739.17	138174.19

* Based on a model prepared for ICAFE by M.Sc.William Portilla and Mr. Marco Araya.

Herbicides (L)	7	7677.39	53741.73
Insecticides (kg)	25	1219.91	30497.75
Total			303854.07
TOTAL VARIABLE COSTS			**727614.88**

SHADE-COFFEE PRODUCTION COSTS PER HECTARE

(in Colones)

Shade-Coffee			
Description	**Labour Hours**	**Labour Cost**	**Total Cost**
I. Variable Costs			
Cultivation			
Prunning	48	321.25	15420
Shade Maintenance	36	428.33	15419.88
Stump removal	12	428.33	5139.96
Hoyada	6	428.33	2569.98
Re-planting	8	321.25	2570
Plage and Disiease Control	0	0	0
Fertilizer Application	0	0	0
Herbicide Application	0	0	0
Weeding	0	0	0
Enmiendas	0	0	0
Deshijas	0	0	0
Arrangement of Wind Barriers	18	428.33	7709.94
Soil Conservation	0	0	0
Subtotal	128		
Other Social Expenses			31098.07
Total			79927.83
Recolection and Transportation			**Total Cost**
Recolection			204000
Transportation of Cherry			54869.2
Transportation of Labour Materials			12789.9
Total			271659.1
Costs of Other Materials	**Quantity**	**Unit Cost**	**Total Cost**
Replanting (# of plants)	140	31.11	4355.4
Fertilizer (complete formula) (kg)	0	0	0
Nitrogenized Fertilizers (kg)	0	0	0
Calcium Carbonate (kg)	0	0	0
Fungicides (L)	0	0	0
Herbicides (L)	0	0	0
Insecticides (kg)	0	0	0
Total			4355.4
TOTAL VARIABLE COSTS			**307112.57**

TOTAL FIXED COSTS FOR BOTH SUN AND SHADE COFFEE

(in Colones)

FIXED COSTS

Description	**Total Cost**
Cultivation Wear-out	77472.25
Depreciation	
Machinery, equipment and tools	27137
Constructions	13500
Maintenance	
Machinery, equipment and constructions	10827.4
Fences and Roads	9317.6
Administrative Expenses	69349.5
Other Social Expenses	17822.82
Taxes	5687.5
Financial Expenses	52445.97
Total Fixed Costs	283560

ANNEX 6
CONTACT INFORMATION

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Fax: 206-318-4344
www.starbucks.com
Coffee: Licensee, Roaster, Retailer

NOVA COFFEE
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Fax: 902-468-2269
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www.nova-coffee.com
Coffee: Licensee, Roaster, Wholesaler, Office Coffee Service, Distributor, Web Retailer
Other: train customer's staff on choosing equipment and preparation of coffee

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