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Defining Direct Trade within the Context of
Central America

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Coffee cherries in Nicaragua.

Defining Direct Trade within the Context of Central America

Direct trade is a method of buying and selling coffee that focuses on the quality of the relationships between trade partners as much as on the quality of the coffee being traded. Central America's producers and exporters are major forces defining the shape of the alternative supply chains created by direct trade. **By Rachel Northrop**

Direct trade is an increasingly popular term used to identify a new category of coffees characterized by personal relationships between roasters, producers, and all the logistics providers in between. In essence, direct trade coffee is the same as any other coffee: it grows on trees and must be processed, milled, packed for export, shipped and transported to a roasting facility.

Parties involved in direct trade coffee transactions have found new ways to carry out the same steps, but with stakeholders assuming different responsibilities than they might assume in a more traditional model. While the term "direct trade" is interpreted differently by everyone who employs it, all direct trade coffee is actively creating new supply chains that run parallel to existing conventional ones and operate based on a different set of values, principles and expectations.

Co-ops & Micro-Mills in Costa Rica

Coopedota is a cooperative of 871 members in the rural town of Santa Maria de Dota in Costa Rica's Tarrazú valley. The co-op understands direct trade to be "the direct negotiation between coffee producers and roasters, taking into account quality, consistency, sustainability, and costs of production in order to find the best price for both parties, who must have a close relationship in order to reach a mutual agreement."

Geoff Watts, vp of coffee with Chicago-based roaster Intelligentsia, is one of the pioneers of direct trade coffee and a long-time buyer of Coopedota's beans. "The premise for direct trade is that both farmer and roaster are more

likely to succeed when they are working together, openly and consistently, and communicating regularly," said Watts. "[This allows] the reduction of risk and the introduction of real security to both sides. Agriculture comes with inherent risk—pests, plagues and unpredictable climate changes—without the added concern of price collapse. Reducing financial risk and creating the conditions where producing top quality can become a viable and profitable strategy are among the key goals of direct trade."

Coopedota's president, Roberto Mata, noted that with direct trade, "We earn better prices—especially when market prices don't cover the costs of production. Above all, we have buyers who value us as people as much as they value our product."

Costa Rica's independent smallholders are just as involved in direct trade as the country's co-ops. Javier Meza has a family farm of 8 hectares and a wet mill he built himself in 2007, La Cabaña, in San Pablo de Leon Cortes, on the other side of the Tarrazú valley. He defines direct trade as

the closest possible relationship between producer and end consumer. "Nationally, we sell coffee directly: roasted and ground. For us, that's the best way of doing it," said Meza. He and other producers opened a roadside café serving only coffees grown on their family farms. "But that represents only about 5 percent of our total volume. International direct trade would be to export our coffee ourselves to buyers we trust. Right now, we sell 95 percent of our coffee to other countries, but with the help of middlemen."

One of those middlemen is Exclusive Coffees of San Jose, an exporter that deals exclusively in coffees grown and processed by families with micro-mills on their own farms. Exclusive's Director Francisco Mena said that direct trade is based on "long-term relationships with 'coffee passionate'—roasters/buyers with a cause—maintained through transparent and traceable actions." Exclusive makes it possible for roasters to fill a container with coffees from many smallholders like Meza, thus facilitating relationships and forging a "brilliant



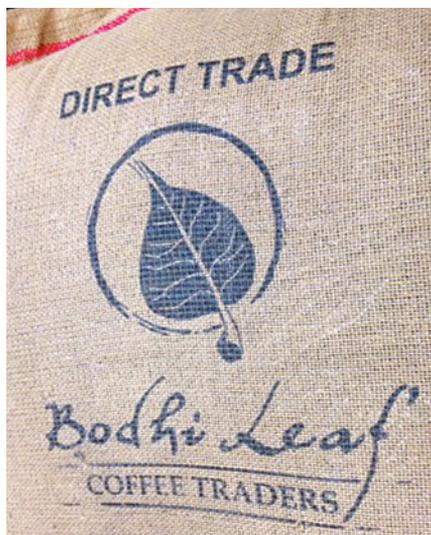
For many coffee farms in Panama like Finca Hartmann, direct trade was the only way to survive.

future for those producers who are establishing micro-mills,” said Mena.

Guatemala: Transparent Ownership

Thrive Farmers, Roswell, Ga., affords producers a revolutionary form of ownership of their coffee’s final destiny. “Thrive Farmers’ direct trade model is a platform that allows the farmer to be a financial stakeholder in selling his coffee at the end of the value chain in green, roasted or brewed form. Farmers have complete transparency and participation throughout their coffee’s journey to the marketplace. Farmers know who is involved at every stage of the value chain and what each of those entities are being paid,” said co-founder and CEO Michael Jones.

Thrive’s model has rapidly expanded to include farmers like Marta Solares Del Cid de González and Rodolfo Solares, sister and brother from the Concepción Pinula region of Guatemala. Marta and Rodolfo are family farmers who have been working their small coffee farm for decades, and now enjoy a more “stable



price for their product, meaning less ups and downs in revenue. That means less opportunity for crisis, and more opportunity to prevent and plan for crisis by investing in crops,” said Jones.

Counter Culture Coffee, Durham, S.C., is also deeply involved with transparent producer relations in Guatemala and experiences similar sourcing stability resulting from direct trade. “Finca Nueva

Armenia from Jorge and Javier Recinos in Huehuetenango, Guatemala, is one of the three first crops of coffees we certified in the spring of 2008 are still core coffees,” said Counter Culture green coffee buyer Kim Elena Ionescu. Counter Culture has its own direct trade certification, and this strict internal control allows the roaster to “measure ourselves against our own expectations and push ourselves to eschew complacency,” said Ionescu.

El Salvador: Spectrum of Specialty

Bodhi Leaf Trading Company of Placentia, Calif., works on the receiving end of direct trade, importing coffees from smallholders. Founder Steve Sims believes “direct trade is directly dealing with farmers. Small producers contact me almost weekly. It’s a big advantage for farmer to sell directly because they get more money for that coffee. It’s also an incentive to produce a better quality and more financially sustainable product.”

In Indonesia and Africa, brokers and co-ops are necessary to consolidate coffee



Like many coffee farms in El Salvador, Cuatro Finca Manzano is equipped to produce specialty offerings such as micro-lots and custom lots.



As a result of direct trade, Finca Santa Teresa in Dipilito, Nicaragua, was able to invest and prevent the roya infestation that hit Central America.

grown in gardens of only a handful of trees into volumes feasible for export. Sims said that Central America is easy to import from because “smallholders” produce enough to be of interest to buyers. This year, Bodhi Leaf purchased the entire production of the Perry family’s Angel’s Mountain farm in Cordillera del Balsamo, La Libertad, El Salvador. “That’s true direct trade right there; buying the whole harvest from a father-daughter team is as direct as you can get,” said Sims.

Bodhi Leaf also imports from HiU Coffee, San Salvador, a project uniting Salvadorian smallholders through supportive education to create tailored micro-lots of honey and naturally processed coffees. “Direct trade is the connection between the trader, roaster or barista directly with the farmer at origin,” said HiU founder Graciano Cruz. “It also becomes a close relationship between final customers drinking the coffee and all the actors bringing the coffee from the farm to the cup.”

El Salvador is equipped to produce the kind of custom lots HiU focuses on,

but its specialty offerings are more than just micro-lots. “Specialty starts at 82 [point cupping score] and goes up to 100,” explained Michael Kaiser, commercial manager with Cuatro M Single Origin Coffees of San Salvador. “Statistically, a higher percentage is going to be closer to 82. Micro-lots are only a fraction of the grand scheme of coffee. How do we add value to coffees on the lower end of the specialty scale? That’s the greater percentage of what the specialty market is.”

Personal interactions can contribute intrinsic value beyond a quantitative cupping score. “Sustainable direct trade is one that recognizes that any coffee operation produces a range of quality and subsequently attempts to satisfy everyone’s needs to buy and sell both,” said Kaiser.

Vertical Integration in Honduras

Consumers generally imagine direct trade to mean that roasters travel to origin to source the coffee directly, but growers and exporters like Tierras Altas are interpreting the inverse. Tierras Altas is vertically inte-

grated from the farm in Francisco Morazan, Honduras through to their RSG Group importing office in Miami.

“We’re building direct trade starting from the family farm in Honduras through to exporting globally,” said co-founder Jim Brock. “In the US we’ll also act as our own importer. We’re in the process of developing and implementing our milling facility, which will also establish a co-op. There are close to 100 farm-



ers eager to sell us coffee because we'll be paying them significantly more than they're getting now."

Producer Perspectives in Nicaragua

Jorge Luis Lagos Calix has been the general manager of his 50-hectare family farm, Finca Santa Teresa, in Dipilito, Nueva Segovia, Nicaragua since 2008. "This 2013-2014 harvest we sold about 68 percent of our total production [via direct trade channels]. We've experienced remarkable growth since we started selling only 10 percent through a direct trade model in 2012."

For Lagos, selling his coffee directly has been transformative. "Direct trade for us means negotiating without a broker. In most of the cases it means better prices, and we also learn the terms and conditions of an international contract, allowing us to see our farms as real companies and change the perspective that most small and medium coffee farmers have of

[coffee farms as] struggling business."

Direct trade is not an instant guarantee for success or a quick fix, but it has the power to rebuild communities. "The *roya* leaf rust explosion two years ago devastated most coffee farms in Central America, but we were able to invest to prevent the attack. Another crisis we experience [in Nicaragua] is the migration of people to work in Costa Rica and Honduras. Our farm hasn't had this problem since we started working with a direct trade model because we can pay more to workers, preventing migration."

Lagos is optimistic about the future. "The direct trade model helps us get financing from banks. Because we don't depend on the international prices that many times are under costs of production, we are more attractive to financial institutions."

Partnering in Panama

For the Hartmann Family farm in Santa Clara, Panama, direct trade was the only

way to survive Panama's shrinking coffee industry. The farm had to specialize and export their coffee directly in order to not disappear. "For us, direct trade is a long-term business model where our coffee brings together the quality, volume, and availability sought by the buyer," said Ratibor Hartmann, director of Finca Hartmann.

Because the coffees coming from Panama are extremely limited, roasters consider themselves lucky to get their hands on the rare beans. Direct trade started as a survival tactic but became a chance for "constant exchange of information, allowing us to continually make improvements in quality, which promotes our country's coffees. Because each of our clients only buys a small amount of our beans, they really value it as something special," said Hartmann.

Transparency and Traceability

Transparency implies full disclosure of



Javier Meza has a family farm of 8 hectares and a wet mill (Above) he built himself. Costa Rica's independent smallholders are active in direct trade.



Photo courtesy of the FNC

Flourishing farm in Ansermanuevo, Valle de la Cauca

New Paths for Commercializing Colombian Coffee

Part 1 of *Tea & Coffee's* series on Colombia discussed growing domestic consumption and Part 2 covered the situations facing Colombia's next generation of coffee growers. The final part of the series looks at the nuanced and varied logistics bringing nearly one fifth of the world's Arabica coffee from Colombia's mountains to the market.

By Rachel Northrop

According to the July data of the International Coffee Organization, London, from October 2013 to July 2014, Colombia accounted for 10 percent of total global coffee exports and more than 17 percent of the world's exported Arabica.

Colombian coffee has a longstanding and hard-fought reputation for quality among roasters and consumers, but shifting consumer preferences are demanding even higher quality, added values like certification, and increasingly, the personal connection offered by various forms of direct trade, as explained in this issue's cover story. Today, the process of commercializing Colombian is diversifying. There are many new paths by which coffee finds its way to diverse buyers, all of whom turn to Colombia for a quality, added value, and personal connection that they can't get anywhere else.

The FNC's Unwavering Commitment

Brazil, Colombia's southern neighbor, exports almost twice as much Arabica as Colombia, but Brazil's production is logistically facilitated by flatter, more accessible land. Colombia's coffee-producing mountains are often referred to as "walls," and many farms are accessible by only a single road. The Bogotá-based Colombian Coffee Growers Federation's (FNC's) role in commercializing coffee begins with the development of the most basic infrastructure, such as purchase points located in remote coffee growing regions.

"The primary function of FNC is to defend the growers' interests and ensure

access markets to with best possible stable prices," said Luis F. Samper, chief marketing and communications officer with the FNC. "This is no easy endeavor. There are more than 560,000 coffee growers in 580 different townships scattered in Colombia's Mountains. The average coffee plantation is just 1.6 hectares."

Producers incur significant transaction costs in order to sell coffee from such small plots of land, where they harvest throughout the year and have to sell each lot separately, making regular trips to purchase points and rendering economies of scale generally impossible. "The invoices of individual transactions of parchment coffee sold in 2013 show that over half of growers' sales in local markets are for 70 kgs of parchment coffee (60 kgs or 130 lbs. of green coffee) or less. Nearly 800,000

invoices reflected coffee grower sales of less than 25 kilos of parchment," said Samper.

In addition to the proximity of 540 purchase points, Colombia's cooperatives extend producers a complete purchase guarantee. "The FNC provides the required liquidity and hedging to the coop system [to be able to carry out the guarantee]. The policy is designed so that no matter what the size of the transaction is, all producers can access current and transparent market prices every single day of the year, and are paid upfront at a location near their farms.

The FNC also regulates coffee exports to assure compliance with minimum quality standards. "FNC's Almacafe, Bogotá, tests and cups over 30,000 samples before export and an additional 1,400 samples are collected in consumer markets for tests. Almacafe is also a logistic operator that



Smallholders bringing coffee to market in Nariño.

Photo courtesy of Abstract Coffee