



# THE SUSTAINABLE COFFEE PROGRAM

A business case for sustainable coffee production

## BRAZIL

OCTOBER 2013

### The world's largest coffee producer

Brazil has long been the world's largest coffee producer, with a current market share of close to 40%. The majority of Brazil's production is Arabica, although the Conillon (Robusta) segment is growing rapidly primarily to serve the domestic market (set to become the world's largest in the near future).

A key issue in Brazil is rising production costs, which affects different farmers in different ways. The majority of Brazil's 274,000 farms are under 10 hectares and family-owned and managed. These farmers are less impacted by rising labor costs because they rely heavily on family labor. Larger farms control labor costs via technology (e.g., self-propelled mechanical harvesters). Medium-sized farms are in a unique predicament where they are too large to get by on family labor, but too small to afford significant capital investments.

Brazil has a highly efficient supply chain that does not depend upon farmer aggregation. Although there are several large cooperatives, most farmers sell their coffee independently and are free to move their business fluidly among exporters. This flexibility contributes to high levels of efficiency and liquidity in the sector, but discourages the private sector from providing long-term training and verification / certification to farmers.

### Emerging sustainability trends

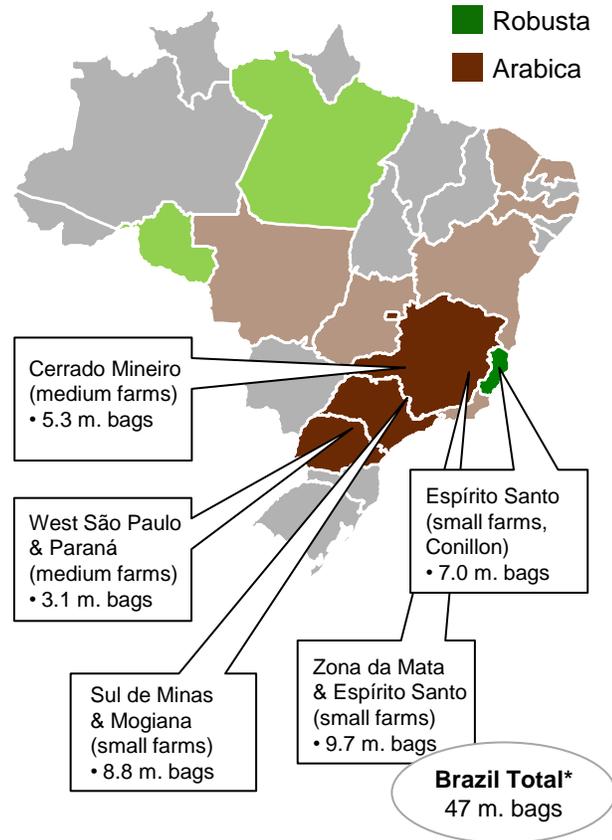
Although Brazil is currently among the leading exporters of verified / certified coffees, future growth may be constrained by two bottlenecks.

#### Standards:

Brazil has rigorous laws that go beyond the minimum criteria of most international standards. It is often hard for smaller farmers to make the investments needed to meet these national laws. As most international standards will defer to a higher national law, farms that do not comply with local laws cannot be verified / certified.

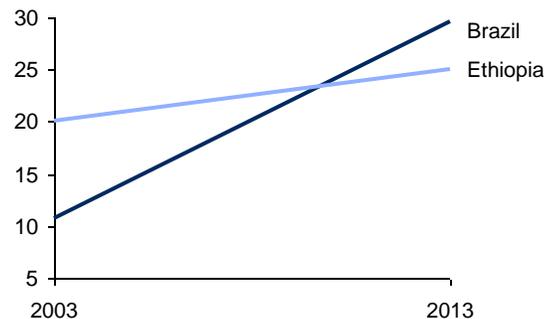
#### Economics:

Verification / certification is economically viable for large farms and cooperatives. However, the cost is currently prohibitive for smaller farms to pursue verification / certification independently. Group schemes could reduce cost, but farmers would need to sacrifice flexibility to shift between exporters and other aggregators.



### Rising costs have reduced Brazil's cost advantage

Cost of farmer labor (US\$) per 60-kg bag



### Quick facts:

- Farmers: 274,000
- Avg. coffee farm size: 7.3 hectares
- Avg. yield: 1,236 kg/ha\*
- Type: Arabica (70%), Robusta (30%)
- Share of sales verified or certified: 12%\*\*

\* Four-year average

\*\* Estimate; includes UTZ, Rainforest Alliance, Fair Trade, 4Cs (2011/12)



## Key opportunities

### Reducing verification / certification costs

- **Aligning standards**, enabling farmers who meet Brazilian standards to also obtain international recognition.
- Identifying ways to **lower costs of audits** and ongoing monitoring (e.g., from \$150 to \$35 for a one-day audit).
- Creating options so **farmers can receive individual certificates** more easily, or through innovative private sector aggregation models (beyond cooperatives)

### Increasing farm profitability

- **Boosting yield**, potentially from 50-70%, through improved agricultural practices.
- Introducing **technology** that can bring efficiency gains in harvesting, processing and other farm activities.
- **Lowering overall production costs**, giving farmers a greater margin to invest in more sustainable practices.

## A strategy for co-investing in sustainability

Brazil could **increase production by 27 million bags and coffee revenues by \$4.4 billion\*** through a focused program to help smaller farmers boost yield, reduce costs, and comply with sustainability standards. Over 10 years, this represents a 4.5% annualized growth rate, versus actual growth of 5.0% over the past 10 years.

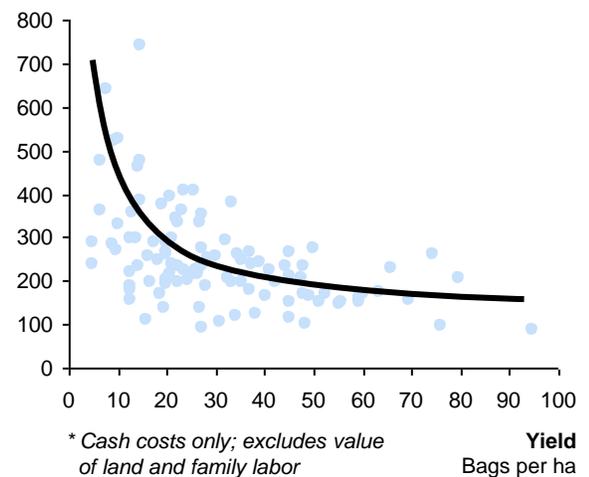
While there is a business case for farmers to make these investments on their own, growth can be accelerated by strategic investment from the public and private sectors. These investments include supporting efforts to harmonize standards and increase individual farmers' access to verification / certification, as well as innovations in farmer training that can collapse the cost per farmer. In addition, increased demand from the local market for sustainable coffees could strengthen the business case for farmers.

Brazil already has strong state and national programs for reaching farmers, including the individualized extension support provided by Certifica Minas and the group training mechanisms offered by SENAR. However, there are likely opportunities to expand outreach and effectiveness of training. The Sustainable Coffee Program offers a collaborative framework to assist implementation and is open to co-invest with likeminded public and private partners in projects that demonstrate innovation or high potential for scaling.

*Key sources; P&A; Certifica Minas Café; USDA; stakeholder interviews conducted in May 2013; TNS analysis*

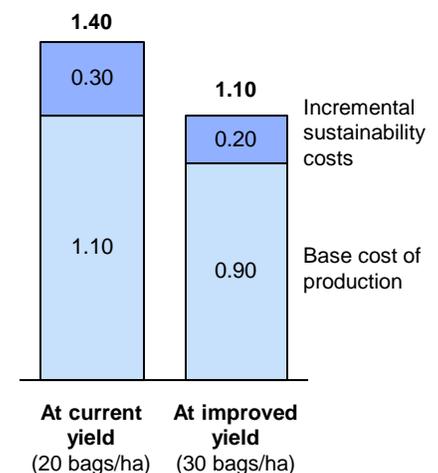
### Higher yields lead to lower production costs

Cost of production\*  
R\$ per bag



### Higher yields make sustainability compliance more cost-efficient\*

US\$ per lb green



\* Modeled on Arabica farm size of 5-7 ha

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