



Farming Forward Round-Table Brazil Report



2nd June 2015 – São Paulo

University of São Paulo – School of Business and Economics (FEA)

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Introduction by the Hosts

The round table “Nescafé Farming Forward” took place on the 2nd June 2015 at the University of São Paulo. It was the continuation of the conference of the same name held in November 2013 at the University of St. Gallen.

The main objective was to further develop the discussion on the topic of sustainable coffee production by bringing together different stakeholders along its value chain.

The round table was attended by 40 like-minded people and the discussion leaders were:

- Nestlé Brazil represented by Marina Barbosa Brecheret (Nestlé Creating Shared Value CSV), Orlando Garcia Alvarez (Nestlé Plan Nescafé);
- The coffee cooperative COOXUPÉ, represented by Mauricio Ribeiro do Valle and Alexandre Vieira Costa Monteiro;
- The academia represented by the University of São Paulo – CORS (Center for Organizational Studies) Prof. Sylvia Saes; and the University of St. Gallen – Prof. Yvette Sánchez (director of the Center for Latinamerican Studies), Prof. Angélica Rotondaro (director of the hub São Paulo) and Luc Wüst (PhD candidate University St. Gallen);
- As guests there were other members of the University of St. Gallen invited. From the Universitaetsrat (board) – Martin Huser (head of communications Helvetia Group) and Patrick Stach (Stach Rechtsanwaelte); the dean of international relations and development – Prof. Juergen Bruecker; and the head of the Institute for Marketing – Prof. Sven Reinecke.
- Researchers from USP and other partner universities, connected to the topic value chains, agro-ecology and regional development also joined the discussion

The round table was structured in two parts. In the first one, guest speakers presented their views on the coffee value chain. In the second involved a round of Q&A to further discuss and to clarify the challenges and commonalities in the area of creating shared value in the coffee chain in Brazil.

We would like to thank all attendants for the good spirit, open discussion and collaboration.

Kind regards, Yvette Sánchez, Sylvia Saes, Angélica Rotondaro, Luc Wüst.



Organizers, guest speakers and researchers who led and spiced up the discussions along the Farming Forward Brazil.



Round Table - First Part

In the opening speech, **Prof. Yvette Sánchez** summed up the results from the “Nescafé Farming Forward” Conference in 2013 at the University of St. Gallen and thereby introduced the topics of the day. She emphasized the necessity of an innovative “agripreneur” that has the autonomy to make decisions based on his personal strategy and wellbeing. Therefore, it is important that the producer gets a fair share of the profit to sustain his/her own business. In addition, there are questions of land ownership to be resolved and governments need to establish and enforce a viable ecosystem for the producers. Furthermore, Prof. Sánchez mentioned how controversially the issue of certification had been discussed at the first conference and proposed to continue it later on at the event.

Nestlé Brazil

Marina Barbosa Brecheret introduced Nestlé’s Creating Shared Value initiative. As a corporation with a history of 149 years and operation spectrum of 196 countries, Nestlé has immense opportunities, but also responsibilities, to create value in the society. Nestlé is taking this task very seriously and has engaged 38 commitments in different areas such as nutrition, rural development, water, environmental sustainability or human rights to attain the highly set goals of creating shared value. These commitments are reflected in all of Nestlé’s productions, also in the Nescafé Plan. Consequently, Nestlé wants to buy 180’000 tons of 4C-compliant coffee until 2015 and distribute 220 millions of high-yield and disease-resistant coffee plantlets until 2020 to ensure the future of coffee farms.

As the responsible for the Implementation of the Nescafé Plan in Latin America, **Orlando Garcia Alvarez** dived into the coffee specific activities of Nestlé Brazil. Brazil has always been the world’s biggest coffee producer, with a market share between 35-40% today. But what may surprise a little, is that Brazil is the second largest consumer of coffee as well. The coffee tradition is deeply rooted in the society and the production communities, where the families often already started farming generations ago. That again underlines Brazil’s role as coffee country once more. In addition, Nescafé has been developed in Brazil 75 years ago in cooperation with the local government.

Nestlé is the world’s largest coffee toaster and wants to lead the sustainability agenda. Therefore, Nestlé has implemented the worldwide program Nescafé Plan, which is based on three pillars: responsible farming, manufacturing and consumption. While the production is focused on an efficient use of the scarce resources such as water or energy and a high quality product, the responsible consumption wants sensitize the consumer to purchase sustainably produced coffee. The focus of the discussion was on the first pillar farming, where Nescafé has established “Farmer Connect”. Through this initiative, Nestlé is buying the coffee directly at the local producers and often processes it in the respective country – 11 out of 27 factories are in production countries. This personal contact to the producers enables Nestlé to build up a relationship of trust and to support the farmers in their production processes.



Referring to the goals of Nescafé Plan, Mr. Garcia informed that 30'000 tons out of the targeted 180'000 tons of 4C coffee are produced in Brazil. An interesting fact is, he told the audience, that only 9 million plantlets of the 220 million target amount are being delivered in Brazil. Due to its longstanding coffee tradition, Brazil simply doesn't need this support in guaranteeing the future of the local coffee production. There is an entrepreneurial community of coffee producers with a high productivity active in Brazil. The next step is to establish a more sustainable production.

Besides the extremely successful story of Nescafé Plan in Brazil, the speaker also emphasized challenges to master in the future. First, the question of property is to be resolved, not only in Brazil but all the producing countries, as it seems. Second, the correct use – if at all – of pesticides is of utmost importance, including protection of staff and adequate storage. Third, the question of water usage is becoming more and more important in every producing industry considering the worldwide preoccupation. *“Sustainability is a journey! We know where we want to go, but we still need to change and learn more about how to get there!”* with these lyrical words Orlando Garcia Alvarez closed his presentation.

CORS (Center for Organization Studies) from the School of Business and Economics FEA-USP

Prof. Sylvia Saes shared insights about a recent research conducted by the CORS about coffee producer's willingness to adopt certification. The research followed an experimental approach, whereby Prof. Saes presented four central results. The methodology involved a sample size consisted of 252 Brazilian coffee producers, whereby 80% did not have any certification whatsoever for the production, the residual served as control group. To determine the willingness for certification, the researchers gave the producers the choice between certain sets of requirements connected with benefits to resemble certification criteria. The basic requirement was to follow the legislation about labour and environment. In addition to this condition, the producers could choose a requirement, either

- a) Preservation of the mountaintops;
- b) Preparation and application of organic compost or
- c) No pesticides.

Connected with these requirements were certain benefits:

- 1) Technical assistance
- 2) A fixed contract up to three years
- 3) Price premiums between 5% and 15%

There were cards distributed to the producers with three possible combinations of these requirements and benefits. It was also possible that more than one benefit were awarded for meeting the requirements and one possible choice always consisted in keeping status quo (no requirement-benefit set). Each producer had to select an option ten times. Giving the coffee farmers this hypothetical choice on their own ground made the scenario very realistic, since the producer knows his lands well. Prof. Saes and her team draw the following conclusions:



1. Producers tend to avoid the zero pesticide requirements, even with a high price premium of 15%. The researcher explained this outcome with the fear of productivity loss in organic production, which some studies estimate up to 30% of the harvest. The risk of losing a part of the harvest is too high, given that it is only once a year. In addition, they argue, the farmers are not used to avoid pesticides and therefore are reluctant to experiment with organic substitutes of pesticides.
2. After avoidance of no pesticides, the second choice was always technical assistance and not price premium. The production is subject to high volatility from one harvest to another. Therefore, it is suspected that producers hope to flatten out these differences and prefer the steady income. A related result, from interviews rather than the card choices, is that using the mountaintops yields a steadier harvest than other parts of the fields. The microclimate seems to be more constant.
3. Certification does not imply formal contracts. Investments in obtaining a certification do not necessarily invoke contracts with the buyer. The researchers explain this as well as characteristics of the supplier side, that the producer prefers freedom in contract negotiations or prefer informal sales relations.
4. Producers with a fixed contract invest more than others. This seems intuitively correct since the producer has guaranteed sales; he is more likely to invest in his production.

The results are observations from an experiment and interviews with the producers, but the reasons behind them are subject to further research. These follow-up projects are all targeted on better understanding the certification processes and enable a more profound discussion. To conclude the presentation, Prof. Saes introduced some suggestions for further research.

COOXUPÉ

The fourth panel presenter brought the coffee producers' side. **Mauricio Ribeiro do Valle**, managing director of the COOXUPÉ cooperative with currently 12,000 members, started with a short introduction on how and why he got involved with the cooperative. Coming from a coffee producer family, he went to study finance and returned to the coffee business as financial responsible of COOXUPÉ. He explained that a cooperative has to be the intermediary for the small producers, so that they can participate in the market and big buyers, such as Nestlé, become their business partners. But COOXUPÉ delivers a whole package of services besides commercialisation, which comprises also technical assistance, input delivery for the production, coffee bean storage, quality preservation and credit.

To guarantee an optimal service for the cooperative members, COOXUPÉ established 27 local offices, where producers can cover all their daily needs and the cooperative can feel the pulse of the producing members. This is important, given the structure of the cooperative with 97% small family producers, that all members can be reached. Unlike the legal possibility in Brazil, COOXUPÉ doesn't require any loyalty from its members. Therefore, the cooperative needs to provide an added value for the members; otherwise they sell their product outside. Mauricio Riberio do Valle went on with explaining some details of their services.



Firstly, the technical assistance is institutionalised. 79 agronomists assist the producers along the whole process from planting to harvest. Furthermore, there is a yearly three days event in Guaxupé, the hometown of the organisation, with speeches, technical innovations and products for the members to explore. And during the year, a conference is touring through all the main bases with a selected topic relevant to the members.

Secondly, the commercialisation process is extremely innovative. The cooperative invests heavily in storage for the producers. On the one side, this is a security measure against theft in favour of the producers. On the other side, with continuous research on quality preservation the cooperative can guarantee a consistent quality to the processors. Since coffee harvest is only once a year, a conservation of quality is of utmost importance. Another reason for the advanced storage technique is again in favour of the producer. He delivers his coffee during the harvest, the cooperative analyses the coffee for its quality in discussion with the producer. The result defines the price range, which the product can reach in the commercialisation later. Finally, the producer analyses in the cooperative information system the real time price development at the coffee market and decides exactly when to sell his product. The cooperative pays this price in the same day and offers immediate liquidity for the member.

Thirdly, the cooperative acts as the financial intermediate for its associates and enables their access to capital. A speciality of the agricultural credit is the so called CPR (Cédula de Produto Rural) where the producer sells his product in advance to a given price at the moment of emission of the CPR. When the harvest arrives, the producer delivers the fixed amount of coffee to the cooperative to pay his debt. A mortgage serves as security. These advantages are a strong argument for a small producer to connect himself to COOXUPÉ and the amount of around 12'000 members seems to prove the organisation right.

Following the presentation of COOXUPÉ in general, **Alexandre Vieira Costa de Monteiro** took over to shed some light on the sustainability issues in the cooperative. He sees sustainability as a chance to bring industry, retail and the producers together in order to achieve a common goal. Although the producers work on demand of other participants of the value chain, Mr. Vieira claims that without the engagement of producers: *“Sustainability is just poetry”*. It is necessary that all the parts of the chain are working sustainable and the cooperative's role is to transform the poetry into measurable action on the ground.

Taking up the topic of certification again, he claims that certification is a cruel process for the producer, because of its harsh requirements and “in or out mentality”. It offers no support to the producers. Instead, farmers need verification of their production, definition of personal sustainability goals and subsequent support in working towards achievement. Initiatives like Nescafé Plan or 4C endeavour to implement sustainability along the whole value chain. Cooperatives play a major part in the divulgation of the sustainability agenda, since the intense support on the field and diverse events in the local cells aim at training the producers. These trainings include as well the wives, often responsible for finances in the family business, and the children as “cafeteiros” of tomorrow.

Only with a strong focus on the producer and the dedicated support of the cooperative it is possible to achieve a more sustainable production in the future. The cooperation between COOXUPÉ and Nestlé through Nescafé Plan and Nespresso show a positive development



and the amount of sustainably produced coffee is rising. This trends need to be further enhanced and supported.

Round Table - Second Part

The presentations certainly provided good food for thought, as the discussion of the second part of the event took up very quickly. Prof. Sánchez raised again the point of certification and questioned the efficacy of “invisible” initiatives like the 4C.

The representatives from the cooperative Cooxupé and Nestlé jointly agreed that a certification for sustainable production is the ideal solution. Nevertheless, the reality of coffee production is far from being certifiable and therefore the producers need to have means to improve in small steps towards certification. Prof. Saes pointed out that another issue in the direction of certification is the (prohibitively) high costs of certification for small producers. Furthermore, the certification industry at the moment does not seem to use the correct approach, since it has become a market for its own sake. Continuing in the manner of the first conference in Switzerland, the certification issue remains a controversy.

A second issue that has been raised from the audience was the producer’s autonomy to make entrepreneurial decisions or how much power is the cooperative able to exert on the small producer. Mauricio Ribeiro do Valle explained, that in the case of Cooxupé, the producer is completely free to decide over his property, which includes his own harvesting process. The cooperative offers services for the members, which will only be used if they are perceived as added value for the farmer.

Related to the producer autonomy, the quality assessment conducted by the cooperative is to sometimes being questioned regarding power exertion. In such cases, the producer has the possibility to appeal to the decision of the quality controller. Furthermore, coffee is a transportable commodity and therefore has the producer the choice to sell elsewhere. To conclude this point, Prof. Ribeiro do Valle explains that the participation rate of COOXUPÉ in the commercialization of its coffee producing members is 60%, which proofs the autonomy of each producer over his own property.

A last question aimed on existence of the co-relation between certification and price premium. One of the participants asked if there would be quantitative data to provide evidence of higher income when selling certified coffee. The answer was that the costs for sustainable production tend to be higher than the price premium the customer is willing to pay in the end.

Outlook and next steps

The round table contributed to the understanding of the key topics, issues and challenges faced by each member in the coffee value chain in Brazil. The dialogue between the actors is very important and the organizers were glad to see, that it is being performed in the daily operations.



In terms of further projects in partnership between Nestlé Brasil, the University of St.Gallen and the Universidade de São Paulo, we could recommend:

1. To organize a larger Farming Forward Forum in Brazil, including more time for discussions and conclusions as well as inviting different key stakeholders like certification agencies, other coffee cooperatives in Brazil, a retailer, etc. This conference would take one day and the location is to be defined. This Forum would bring in elements to be further checked and improved in the coffee value chain. Members from Nestlé in Switzerland should also attend.
2. To develop a study, endorsed by Nestlé, about Measuring Fairness in the Supply Chain Trading Relationships – from producer to consumer. Besides the partners at the University of St.Gallen and Universidade de São Paulo, there could also be other supporters/sponsors from a large retail chain. It could include not only coffee but also include one or two other products like cocoa or orange. The objective to analyse fairness is to identify what “matters” for producers and for consumers when it comes to a more inclusive trade. Based on the understanding this study will bring, it will guide a closer communication line between producer and consumer as well as identify points of improvement in the value chain which are directly connected to what matters to consumers and producers.
3. To organize a fellowship program involving one PhD candidate from the University of St.Gallen and one PhD candidate from USP-FEA-CORS that would support the development of research in the front-line, about CSV.
4. Others topics that Nestlé Brasil would like to suggest based on the most pressing elements they face in implementing an CSV strategy in Brazil.

For further information please visit the websites of the respective organizations

University of St. Gallen:

Hub Office São Paulo and the Impact Investing Research Platform:

<http://www.unisg.com.br>

Centro Latinoamericano-Suizo:

<http://www.cls.unisg.ch>

CORS – Center for Organization Studies at FEA-USP:

<http://cors.usp.br/>

Nestlé:

Homepage: <http://www.nestle.com.br/>

Nescafé plan:

<http://www.nestle.com/csv/case-studies/AllCaseStudies/TheNescaf%C3%A9Plan-Mexico>

COOXUPÉ: <https://www.cooxupe.com.br/>