

Oxfam Coffee Campaign

Visit to Peru by John Crabtree (Jan/Feb 2002)

Main conclusions

As well as interviewing some 15 or so coffee producers in Alto Piura and in the region of Tarapoto (San Martin), I also conducted interviews with representatives from a variety of different interest groups (*names listed at the end of the report*). This document highlights a number of broad conclusions from those interviews.

Production trends

Peruvian production may be close to peaking, says Lorenzo Castillo at the JNC. In 2001, it reached 162,000 mt. This year he thinks it is likely to fall to 150,000 mt, because the low prices are causing people to abandon coffee for other activities. Also, coffee plants are no longer being adequately attended, so yields are set to fall. The official projections are overly optimistic and don't take into account what's happening on the ground. Peru exports 95 per cent of its coffee, with Germany the single largest market.

Structure of the industry

At the level of producers, the structure of the industry is highly atomised. There are some 200,000 producers. On average these have less than two hectares of coffee each. Some have as little as 0.25 hectares. The industry is therefore one of small peasant farmers. In Piura, the tradition of coffee growing is of long standing; in Tarapoto it is much more recent, with many producers planting coffee only in the last 5-10 years as a result of the coca substitution programmes supported by USAID, the UNDCP, and others. There are lots of co-operatives operating, but many only provide services. A number went out of business when the Banco Agrario was closed down in 1992.

The producers we met included both independents and socios of co-operatives or export ventures like Cepicafe. Most producers sell to local intermediaries (known as *grillos* or *coyotes*) who then sell on to the *acopiadores* in the main towns who generally work for the export companies. Almost all the producers I spoke with undertake preliminary processing at the level of the farm, the more organised among them selling *pergamino* (parchment) on to the *acopiadores* and exporters. In some cases, the *acopiadores* finish off the drying process. This reduces humidity levels to 12-13 per cent, which is the internationally acceptable level for green coffee exports.

There are some 30 exporters, but of these, around ten dominate the industry. They channel credit to the *acopiadores*, who in turn provide finance back down the chain to the producers. The exporters are under pressure from the international traders who are seeking to bypass them and buy direct from producers and co-operatives (see below). Volcafe appears to be the most active, although Kraft is making in-roads as well.

Specialty coffees

Peru has become a relatively important player, relatively speedily, in the markets for specialty coffees, especially organic and fair trade. Both provide a premium to the producer. With such a big difference between the market price and the fair trade

price (US\$124 per quintal), the premium for fair trade is particularly significant. Both Cepicafe and Oro Verde are exporters of organic coffee only.

Some of the producers we met in Tarapoto questioned whether meeting all the extra requirements for organic coffee was really worth it. According to Huancaruna, the cultivation of coffees that enjoyed such a price premium over conventional coffee was having a divisive effect in the growing areas. According to Alexsa, there is a growing glut in the market for organic coffees.

Prices and the price chain

As a consequence of the collapse in the world price, the price paid to Peruvian producers of coffee is currently extremely low. The exact prices as reported by individual producers vary a little, but the average price paid by an intermediary to a producer is as low as 80 soles (US\$1=3.46 soles) per quintal (1 quintal = 100lbs or 46kgs), although prices paid by those eliminating the intermediaries were higher. In most cases, producers reported that the prices paid were considerably lower than their estimated costs of production.

According to Prisma, with the world market price at US\$45, the producer gets about US\$30; his/her production costs vary between US\$55 and US\$70. (Oro Verde put production costs lower at around \$30 per quintal or 103 soles; the Camara at \$46). Producing 30 quintales at US\$30 per quintal would give an annual coffee income of US\$900. In contrast, in order to buy enough food to survive in the *selva*, Prisma calculates that the minimum necessary to meet basic needs is an income of US\$1200 per year. Interviews with producers suggest that the amounts being spent monthly by farmers are much lower than this.

Prices fell rapidly during 2001. According to Oro Verde in Lamas, prices paid by the co-operative to its socios fell from 150 soles per quintal in May to 112 soles six months later. They have fallen more since then.

Typically (an example from Tarapoto, where I spoke to *comerciantes*), the *grillo* or coyote pays 80 soles per quintal to the producers. He in turn sells to the *acopiador* or exporter at 100-105 soles per quintal. This compares with 190-200 per quintal two years ago. Deducting transport and other costs, the margin that this coyote *claimed* to make was 2 soles per quintal, but it is the volume sold that counts. According to the *ingeniero* at Oro Verde, the margin was more like 10 per cent. We heard many complain that the *comerciantes* lend cash to producers just before the harvest (when they are particularly hard-up) on condition that they buy a portion of the coffee harvest at knock-down prices. At the local level, the coyotes tend to operate as a cartel, and it is difficult for producers to make use of the competition between them.

The price advantage for the organised producer is threefold:

- bypassing of intermediaries;
- improvement in quality (price) and quantity (yields);
- reduction in waste from improved methods of picking, processing, and storing, which reduces the costs for the exporter and therefore raises the price he is prepared to pay.

The exporter then buys from the *acopiador* and sells on the international market at the New York bolsa price plus (or minus) a premium (or discount) for Peruvian coffee. Currently, Peruvian coffee attracts a premium over the bolsa price of US\$3 (compared with \$10 below as recently as 2000), which would mean roughly \$48 or 166 soles. The costs of the exporters evidently vary, but average out at around \$15-

20 per quintal, from which it becomes clear that they do not make a huge amount of money. Clearly, when intermediaries are excluded, and producers or their co-operatives export direct, the gains are much higher. In the case of Cepicafe, producers were paid 212 soles per quintal last year (the rate is now lower) with an extra US\$10 (34 soles) supplement for organic coffee.

Social impact

The low prices of coffee are clearly having a fairly devastating effect on producers, but the peasant economy (based primarily on family labour) provides a sort of shock absorber. The interviews provide much more detail here on the impact of prices on family incomes. Increasingly, producers are being forced back onto subsistence agriculture in order to survive. In most cases (though not all) coffee is cultivated alongside other commodities -- typically bananas, maize and yuca -- that provide a basic diet. In Roque, coffee producers were particularly exposed because they do not produce much else by way of subsistence crops. Generally, most of those interviewed reported that they were cutting back on purchases in local markets, especially for goods like meat. In some cases, notably in Piura, there were possibilities of raising some income by selling alternative crops, like citrus fruit and maracuya, but for these too, market prices were depressed. Several of those we interviewed managed to supplement family income by working off the farm on other activities (e.g. road building). The costs of harvesting are partly reduced by reciprocal, unpaid assistance between producers at harvest time, a system known as *choba choba*.

Gender impact

The crisis facing coffee producers is having a clear impact on gender relations, as women are being forced to shoulder an increasing amount of the economic burden. There were two main causes of this. First, male heads of household were being forced to go and work elsewhere, leaving farming in the hands of wives and children. Cases were mentioned of men going off to harvest coca and returning to their *chacras* only to harvest the coffee crop. Second, increased labour costs (because the demand for coca labour drives up the cost of labour generally) and lower incomes meant that farmers were reluctant to employ labourers for the harvest. Instead, women and children were being used to meet the labour shortfall. In all cases visited, women already play an important role in the productive process, both directly (in fulfilling certain agricultural tasks) and indirectly (providing food for labourers, etc). They are particularly involved in preliminary processing (*despulpar*, *fermentar*, *secar*). When children are obliged to help in agricultural functions, it is increasingly likely that they will stop going to school.

Drug cultivation and coffee

In Peru, drug cultivation (coca and now amapola) takes place in areas similar to coffee production (although this did not appear to be the case in Piura). Coffee has been one of the products that has been actively promoted as a substitute for coca growing. The increase in coffee cultivation in areas like the Lower Huallaga in recent years owes much to the efforts of crop substitutors. In the mid-1990s, when coca prices collapsed and coffee prices were high, coffee was seen by many as an attractive alternative to coca - especially as many *campesinos* were thoroughly sick of the violence and extortion associated with the coca economy.

With coca prices rising and coffee prices on the floor, the pattern of incentives has radically changed. According to the JNC, coca provides nearly ten times more income per hectare than coffee. The extent to which coffee is being abandoned for coca is difficult to estimate. Most of those interviewed said that coca plantings were rising, but out of view of the authorities (and of observers like me). It would seem that

where they can, farmers are cultivating some coca to supplement otherwise falling income. For the reasons mentioned above, farmers are also either abandoning their coffee *chacras* and moving to areas of coca cultivation, or the men are migrating seasonally to coca-growing areas leaving their *chacras* to be tended by other family members. The woman at USAID was in no doubt about her concerns for the reversal of previous crop substitution achievements. According to the JNC, there have been around 25,000 new or rehabilitated hectares of coca farming in the last 18 months. In addition to coca, amapola poppies are increasingly being grown in coffee-growing areas. The earnings from amapola are well in excess of those from coca.

Government policy

Government policy towards the coffee industry has been virtually non-existent in recent years, but there appear to be some signs of renewed interest. In part, this is the result of pressure from the likes of the JNC and Conveagro, the umbrella organisation representing rural *gremios*, which is currently chaired by Raul del Aguilar from COCLA. A team had apparently been created for the first time within the Ministry to study the problems of the coffee industry. One of those we interviewed, one of the few with specific knowledge of the international coffee business, had just been switched from Prompex (the export development agency) to the agriculture ministry. A good thing? Maybe, or maybe not.

The men from the ministry repeatedly stressed the collaborative nature of their dealings with coffee organisations, something that these all refuted. Almost all informants in the field told us that the state played no role whatsoever at the local level. Mario Tavera and his colleagues did their best to give the impression that there *is* a policy, but this was refuted in just about all the other interviews that were conducted. Apart from saying that they were hoping to set up a coffee fund to help small-scale producers (amount yet to be agreed upon), the main gist of their 'strategy' is the need to improve the quality (and therefore the international competitiveness) of Peruvian coffee and to reduce costs. They place a lot of emphasis on filling niche markets, a policy which Del Aguilar says cannot possibly resolve the problems of the coffee industry as a whole.

On the issue of costs, the agriculture ministry seems to echo the people from the Camara, which articulates the views of the exporters. Peru's costs, it is true, are raised by the distance separating the main growing areas from the principal ports. It apparently costs more to ship coffee from Quillabamba to Lima than it does to ship it from Lima to New York. With regard to the ICO proposal, they didn't seem to have much of an idea, but said that Peru would probably back it because it produces higher-quality coffees.

Proposal for the destruction of low-quality stocks

Positions varied with regard to this proposal, though for the most part people didn't seem to have given it that much thought. The Camara were very much against, arguing that all such schemes to regulate supply were doomed to fail, and what Peru needed to do was to improve its overall competitiveness in the international market by lowering production costs. This was also the view of Ekkenard Hausler, the broker from Alexsa. Ricardo Huancaruna took a rather different view, but stressed the fact that a multilateral financing arrangement to force producers to dig up coffee bushes would be difficult to orchestrate. The government did not give the impression that it had thought much about this specific issue.

Other proposals that were discussed under the rubric of 'what can be done' included adding local value by roasting in Peru and raising domestic consumption through more effective promotion. The domestic market is small compared with, say, Brazil,

where steps are being taken to raise coffee consumption. Neither of these seemed to provide much of a solution.

Exporters under threat

The exporters' survival is in doubt. A number of companies have collapsed in the past year; others have slipped seriously down the league ranking of the export companies. One reason appeared to be that some firms had lost a great deal by playing the futures market. As you would perhaps expect in a time of shrinking margins, there seems to be a process of adjustment going on. Large foreign companies appear to be moving in to do deals with specific groups of producers, offering them better terms (or more dependable contracts) than the exporters are able to give. The boss of Volcafe was in town in early February to pursue some production contracts. Huancaruna, by far the biggest exporter, showed some unease about this. In the past, Huancaruna was itself more aggressive than its rivals in building solid links with the co-operatives and local intermediaries. Volcafe seems to be trying to emulate some of the fair trade experiences.

The traders also see Peru as an alternative source of supply to Colombia. Kraft has for some time established direct links with producers like COCLA. It is also working with Oro Verde. On the basis of two containers sold to Kraft last year, Oro Verde received \$20 above the market price per quintal, a profit it was able to pay subsequently to its socios. Esteve, too, is doing the same sort of thing. The producers welcome such initiatives, perceiving them as a chance to break the traditional domination by the exporters.

Names of interviewees:

Araujo, Aladino	<i>President of the Asociacion de Cafecultores in Sauce</i>
Bayona	<i>Comerciante in El Faije, Piura</i>
Boscangel, Iberico	<i>Ingeniero at Oro Verde Cooperative, Lamas</i>
Castillo, Lorenzo	<i>Head of the Junta Nacional de Café (producers)</i>
Del Aguilar, Raul	<i>COCLA (large producer/exporter)</i>
Door, Christian	<i>PRISMA, an NGO working with USAID in crop substitution</i>
Gutierrez, Connie	<i>USAID</i>
Hausler, Ekkenard	<i>Atlantic Export (Alexsa) (brokers)</i>
Huancaruna, Ricardo	<i>Perhusa (exporters)</i>
Navarro Vascones	<i>Luis Camara Peruana de Café (represents exporters)</i>
Pulgar, Matilde	<i>UN Crop Substitution Program, Tarapoto</i>
Sanchez, Mario	<i>Comerciante, Tarapoto</i>
Paz, Santiago	<i>Executive Secretary, Cepicafe, Piura</i>
Tavera Mario	<i>Ministerio de Agricultura</i>
Vasquez, Guillermo	<i>Former President of Asociacion de Productores de San Martin</i>
Villanueva, Cesar	<i>Rainforest (NGO-ish intermediary)</i>