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Starbucks and Conservation International

Aligning self-interest to social responsibility is the most powerful way to sustaining a company's success.
—Orin Smith, President and CEO, Starbucks Coffee Company

In mid-2002, the management of Starbucks, the world's leading specialty coffee company, was examining its collaborative efforts with the environmental nonprofit Conservation International to promote coffee-growing practices that would enhance the environment and produce high-quality coffee beans. This four-year-old alliance was an integral part of Starbucks' business and social strategy of strengthening the well-being of small coffee producers.

These efforts were taking place during a tumultuous time for the coffee industry. Overproduction had caused world coffee prices to plummet, creating economic hardships for growers. Concerned social groups had launched the Fair Trade movement to pressure coffee buyers to pay higher prices to small growers. Environmental groups were clamoring about habitat destruction arising from production practices. At the same time, Starbucks had led the explosive growth of the specialty coffee segment of an otherwise stagnant coffee market.

The industry situation and the company's leadership position posed significant challenges for Starbucks. It was a lightning rod for nonprofit groups seeking solutions to social problems in the coffee industry. Aside from having to manage these pressures, Starbucks' own values motivated it to find innovative solutions that would create a more economically, environmentally, and socially sustainable coffee system. It was assessing the role of the alliance with CI as part of that strategy.

Starbucks Coffee Company

Named after the first mate in Herman Melville's *Moby Dick*,[1] Starbucks Coffee Company was founded in 1971 when its first store, Starbucks Coffee, Tea and Spice, opened in Seattle. In its first year, the company bought its beans from Alfred Peet, who had been importing arabica coffees since the 1950s. His store in Berkeley, California, which bore his name, sold a variety of dark-roasted

[1] Brian Nattrass and Mary Altomare, *Dancing with the Tiger: Learning sustainability step by natural step* (New York: New Society Publishers, 2002), pp. 100–139.

coffees and teas. During the next year Starbucks set up its own roasting operation and began selling its own roasted blends.

In 1982, Howard Schultz[2] joined the company as head of marketing and overseer of the retail business. Schultz wanted to extend Starbucks' reach by adding espresso bars in its stores. Starbucks owners rejected the idea and, in 1984, Schultz left the company to start his own line of espresso bars, called Il Giornale. By mid-1987, Starbucks owners were looking to sell the company, and in August 1987 Schultz acquired the entire operation for $3.8 million and merged it with Il Giornale under the Starbucks name.

Starbucks went public in 1992 at a time when the company was starting to implement its global strategy. While keeping the focus on quality coffee, Starbucks began global expansion of its stores (Japan and Singapore in 1996 and Taiwan, Thailand, New Zealand and Malaysia in 1998) and established strategic partnerships with PepsiCo for its bottled Frappuccino and Dreyer's for the Starbucks line of ice creams in 1996. By fall 2002, the company had 4,000 stores in the United States and another 1,500 in 22 other countries, with plans to expand to 10,000 stores in 60 countries by 2005 and 15,000 stores by 2007; each day three new stores opened. Additionally, Starbucks had a wholesale business and sold to food service establishments and supermarkets, as well as through catalogs and the Internet.

Starbucks had revenue of $2.7 billion in 2001, up from $465 million in 1995 (see **Exhibit 1** for financials). Nearly two-thirds of revenue came from coffee beverages, 15% from coffee beans, and 24% from food and coffee-related items.

Mission Statement

From the beginning, Schultz wanted to create a company that employees were proud of, was profitable, and was a good place to work.[3] In 1990, the senior executive team created with employee input the company's mission statement: "to establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow." The six guiding principles were:

- Provide a great work environment and treat each other with dignity and respect.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

[2] At press time, Schutlz was the chairman of and chief global strategist for Starbucks.

[3] Nattrass and Altomare, *Dancing with the Tiger*.

Corporate Social Responsibility

Social responsibility was an important tenet for Starbucks. From its early years the company had given back to local communities, including countries where its coffee was sourced. Since 1991 Starbucks had contributed $1.8 million to the international relief and development nonprofit CARE to support its community development projects such as promoting literacy and clean water supplies in coffee-origin countries.

In 1999, a Corporate Social Responsibility (CSR) department was formed to oversee Starbucks' involvement in literacy programs, community volunteering, environmental affairs, shade-grown coffee, and international relief efforts. CSR had five areas of focus: business practices, environmental issues, community affairs, corporate giving, and the Starbucks Foundation. In 2001, Starbucks had donated $7.3 million in cash and kind.

CSR originally started in 1994 as the Environmental Affairs department with a budget of $50,000; by 2002, the 14-member department had a budget of $6 million. According to the senior vice president of CSR, 75% to 80% of consumers rewarded corporations that were perceived to be good corporate citizens; 20% punished those that were not. He added, "Howard Schultz, in his public comments, often speaks about this delicate balance between fiscal responsibility, shareholder value, and a company's heart, soul, and benevolence that it needs to maintain even in down times. Today it's as important to the company to be known as much for being a good corporate citizen as for the quality of its coffee."

CSR served two roles. Before any public-policy decision or public statement was made, CSR would bring together all of the relevant players involved in the decision. "We do nothing by ourselves," explained CSR's senior vice president. "We are involved across the whole company, whether it's a coffee issue, a supply issue, or a marketing issue. Many committees throughout Starbucks have representatives from CSR. When we talk about issues here at the company, CSR is always a part of the conversation." CSR's second role was "to make sure we do what we say we're going to do," he added. "It's become clear, as time has gone on and the company expands, that CSR has a more critical role in the corporation every day."

CEO and President Orin Smith commented on the role of the company's social investments:

> We want to create an important difference in the lives of our stakeholders, and shareholders are not our only stakeholders. They include our partners, customers, coffee growers, and the larger community. I think a really important part is that we are proud of the company we work for. It's more than a paycheck. You're proud to tell your peers, or your parents, or whomever, where you work. That's a pretty powerful factor in your loyalty, how long you're going to stay with us, what kind of job you're going to try to do for us. So it's an integral part of the whole business strategy.

The majority of Starbucks' 54,000 employees, referred to as "partners," worked in the retail stores. The average employee turnover rate in the food service industry was 200% per year, whereas Starbucks' was 65%–70%. It cost the company $500 to recruit and train every new store employee.

The Coffee Industry and Starbucks Procurement[4]

Production Increased supply from countries with low costs of production had depressed coffee market prices to their lowest in 30 years (see production data in **Exhibit 2**). The largest producer, Brazil, became a low-cost producer through economies of scale and mechanization on plantation farms, while the second largest, Vietnam, did so through subsidized production and low labor costs (wages in Vietnam were less than 10% of those of some other coffee-producing nations). Between 1992 and 2002 Vietnam's production grew from 1% of the world's coffee supply to 13%. In 2001, 15.5 billion pounds were produced but only 13 billion were sold. (See **Exhibit 3** for list of top coffee exporters and importers.) In many producing countries, coffee was the most important crop as well as a significant source of hard currency.

Most of the world's 25 million coffee producers were small, family-owned farms. In 2002, approximately 70% of the world's coffee was grown on farms of five hectares or less. But despite owning their own land, coffee farmers around the world often lived on the brink of poverty. A history of rural capital scarcity exacerbated the impact of the volatile world coffee price on the long-term investment required over the three- to four-year period between planting and the first full harvest.

Depending on the region, harvest season could last up to several months, during which time large numbers of seasonal farm workers were hired to handpick only the ripest cherries. Coffee pickers were paid by the bushel, and this seasonal labor was the most significant cost input for many small farms, amounting to as much as two-thirds of costs. Low coffee prices had led to the more frequent use of strip harvesting, a less labor-intensive process that pulled all cherries at once, regardless of ripeness, and resulted in a lower-quality coffee.

In some producing countries, such as Brazil, large-scale coffee plantations were the norm. On these farms, coffee trees were planted in fields entirely cleared of vegetation. Without shade trees, coffee plants required more intensive fertilization and pest control, generally with the widespread use of chemicals. Large farms commonly used strip harvesting with mechanized harvesters. Machinery and especially agrochemicals added significantly to production costs but allowed per-acre yields up to seven times of those of traditional farms.

Arabica and robusta beans accounted for two-thirds and one-third, respectively, of 2002 world coffee production. Until the 1950s, world production and trade consisted mainly of the milder and smoother arabica coffee, generally considered superior by European and North American palates. Following the late 19th century destruction of plantations in Ceylon (Sri Lanka) and Java (Indonesia) from disease, production of arabica coffee was centered in Brazil, Colombia, and Central America. The hardier robusta plant grew at lower altitudes than arabica and was more tolerant to climatic variations and disease. The trees matured more quickly but produced a harsher, bitter-tasting bean with a higher caffeine content. Robusta sold at a lower price than arabica coffee and was often used in branded coffees sold in supermarkets and in espresso blends. Starbucks purchased only arabica beans.

Grower income depended on world market prices and the number of intermediaries from farmer to roaster. Some growers were able to maximize their revenues by selling directly to roasters or through a relatively small number of efficient intermediaries, while other growers' coffee passed through as many as four intermediaries. Many growers had little idea what happened to their coffee after it left the farm.

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[4] This section derives heavily from Ray A. Goldberg and Jim Beagle, "Global Coffee Summit: Searching for Solutions," HBS No. 902-422 (Boston: Harvard Business School Publishing, 2002).

Primary processing to extract the bean from the skin and pulp of the berry was carried out within the producing country, either at a central processing facility or, in the case of large-scale producers, on the farm itself. There were two methods of coffee processing. The simpler, traditional method was to dry the cherries in the sun on a patio or in a drying machine and then remove the desiccated pulp and parchment from the bean. A more complex and expensive "wet" method involved large amounts of water and several machines to pulp, ferment, wash, dry, peel, and polish the beans. The wet method produced "washed arabica" beans that traded at a significant premium on the world market.

Trade In 1998, 50% of the world trade in coffee was controlled by just six companies, with the two largest traders (Neumann and Volcafe) accounting for 29% of the market. With the demise of state export agencies, international traders had increased their role in the producing countries, often financing the activities of local exporters and sometimes forming direct links with the large coffee producers. For the most part, importers operated independently of the next group in the supply chain, the roasters that purchased the green coffee beans.

Coffee was traded on commodity exchanges in London, New York, and Brazil, with London trading robusta and New York trading washed arabica, also known as the "C" contract. The coffee exchanges attempted to establish a fair basis price for coffee by matching the market's incremental changes in supply with changes in demand. The exchanges were not a primary operations solution mechanism for most roasters, which usually dealt directly with importers, exporters, or cooperatives, but enough volume was traded through the exchanges that most in the industry felt that they established a sound, fair basis price and enabled futures contracts.

Roasting Roasters prepared coffee for final preparation and consumption. The roaster used information on its consumers' needs to develop its products and communicate this information back through the supply chain to the growers. In 2002, Nestlé, Procter & Gamble, Kraft, and Sara Lee accounted for approximately 70% of global roasting capacity and 40% of the retail market, with supermarkets being the major outlet. An estimated 10,000 roasters, focused mostly on regional and/or specialty products, did the rest.

At early 2002 prices, coffee rarely accounted for more than 60% to 65% of a roaster's production cost. A roaster targeting mainstream consumption tended to have gross margins in the range of 15% to 20% in 2001, with operating margins of approximately 7% to 10%. For specialty coffee roasters involved in retail coffee products, coffee could at times account for as little as 5% of a roaster's cost of goods sold.

Retailing In 2001, over 60% of coffee in the United States was sold through supermarkets. Retailer margins on coffee were extremely low, with many often using coffee as a loss leader to drive traffic through stores. The other one-third of coffee in the United States was sold through food service distribution and restaurants. Margins for restaurant and food service retailers were highly variable, especially since coffee was often a small part of the final product and overall cost. Over the previous decade there had been a dramatic change in the coffee market with the emergence of the gourmet or specialty coffee segment (see **Exhibit 4**). With the exception of specialty coffees, per capita coffee consumption in most of Europe and the United States, which bought 25% of the world's coffee exports in 2001, had stagnated in recent years.

By 2000, the gourmet coffee market grew to 8% of world coffee sales. In the United States, 13,000 specialty coffee producers accounted for roughly 17% of the 2.6 billion pounds consumed, but about 40% of the dollar volume sold. This higher-quality, higher-priced coffee tended to be consumed outside the home in above-average serving sizes. Many consumers were more occasional than routine coffee drinkers, making product innovation and store atmospheres particularly important.

"Starbucks is not strictly a coffee company," an industry executive once noted. "It is more an entertainment company that happens to sell coffee."[5]

Starbucks procurement system Specialty coffee typically came from small to medium-size farms. It was handpicked and milled at the farm or at a third-party mill, where it was prepared for export. Some farms had the ability to fully process and export their own coffee, while some only had the ability to partially process the coffee. Farms that did not have processing capabilities sold their coffee (raw cherry or parchment) to the local market (mills, exporters, co-ops).

Generally speaking, an exporter would often own its own mill where it could manage the quality of locally purchased coffee, pulling out any imperfections and further segregating the quality, depending on customers' needs. Starbucks required samples of coffee prior to loading of shipments. This "preship" sample was sent to the company where it was evaluated, roasted, and cupped to ensure the quality met Starbucks' standards and expectations. Following the cupping, the supplier (farmer, exporter, mill) was called and advised on whether the coffee was approved or not. Approved coffee was then shipped to one of Starbucks' roasting plants, where the coffee was unloaded and samples were drawn a second time. Again the coffee was evaluated, roasted, and cupped to ensure the coffee met quality standards. Starbucks did not contract with other roasters or outsource any steps in the process. The company owned the entire process.

Starbucks purchased about 1% of the world's coffee supply. Because of its absolute insistence on high quality, it paid significantly higher than the prevailing prices, averaging in 2001 $1.20 per pound of green coffee, excluding freight, compared with the New York C price of $0.48 (see **Exhibit 5**). In fiscal year 2001, Starbucks purchased almost 90% of its coffee at variable prices tied into the prevailing wholesale market price. For fiscal 2002, the company made a dramatic shift to buying 74% of its coffee at outright fixed prices, with 31% being long-term contracts. It increased its direct purchases from small to midsize farms and co-ops from 9% to 59% of its total coffee supply.

The other significant shift in Starbucks coffee procurement was the introduction in 1999 of environmental preservation efforts focused on shade-grown coffee through an alliance with the nonprofit Conservation International.

Conservation International

Conservation International (CI) was founded in 1987 in Washington, D.C. with a mission to conserve the Earth's living natural heritage and its global biodiversity and to demonstrate that human societies were able to live harmoniously with nature. (See **Exhibit 6** for CI Board.) The majority of CI's efforts focused on 25 areas of the world it had identified as "biodiversity hot spots" where the richest, most threatened concentration of plant and animal species was found. These areas covered 1.4% of the Earth's land surface yet accounted for more than 60% of all terrestrial species. CI maintained a number of alliances with companies, conservation groups, multilateral institutions, governments, and private foundations.

CI had a staff of 776 overseeing projects in more than 30 countries on four continents. Roughly two-thirds of CI's staff worked in the field; 90% were citizens of those countries. Between 2000 and 2001, the organization's operating revenue grew from $35 million to $55.9 million. Of the $53.5 million in expenses, 82% went directly to conservation programs, 6% to development, and 10% to

[5] Rohit Deshpande and Alexandra de Royere, "Café de Colombia," HBS No. 502-024 (Boston: Harvard Business School Publishing, 2002).

finance and administration. In spring 2002, Intel cofounder Gordon Moore agreed to give CI a $261 million grant spread over 10 years to support a campaign to slow the rate of plant and animal extinctions across the world. It was the largest donation made to an environmental cause in U.S. history.

CI established the Center for Environmental Leadership in Business (CELB) in 2000 in partnership with Ford Motor Company as a new forum for collaboration between the private sector and the environmental community. CELB's mission was to engage the private sector worldwide in creating solutions to critical global environmental problems in which industry played a defining role. CELB had three areas of focus: biodiversity, water, and climate change. CELB had a full-time staff of 17 but worked with more than 50 CI staff worldwide. The center was divided into industry groups—energy/mining, agriculture, fisheries and forestry, travel and leisure, and climate change and water—each led by a director. CELB's business development and marketing program cut across all groups.

Shade-Grown Coffee: The Chiapas Project

In the mid-1990s, CI had identified coffee as an important commodity affecting biodiversity and conservation. "Twenty-five million acres of rain forest had been replaced by coffee plantations around the world," explained Glenn Prickett, CELB's executive director. "That trend is sadly continuing, particularly in low-quality coffee-producing regions like Vietnam and Brazil." Traditionally, coffee had been grown under shaded conditions, but in the 1980s new higher-yielding varieties were introduced that were grown in full sunlight and generally in conjunction with high agrochemical usage. The adoption of this new technology was heavily promoted by various international aid agencies. This switch stimulated the displacement of shade-covered coffee plantations. Some bird researchers suggested there were fewer migratory birds in the United States because of the resultant habitat destruction.

In 1996, CI launched a pilot Conservation Coffee Program with three coffee cooperatives located in the buffer zone of the El Triunfo Biosphere Reserve in Chiapas, Mexico to preserve and promote shade-grown coffee. (See **Exhibit 7** for map of region.) Located on the highest ridges of the Sierra Madre, the reserve's 120,000 hectares (approximately 300,000 acres) of pristine rain and cloud forests harbored one of the most diverse areas of trees in all of Central and North America. The reserve provided a habitat for numerous rare and threatened species, including the Pavón and Quetzal birds, jaguars, tapirs, and over 100 other species of mammals and nearly 1,000 of flora. The Sierra Madre range was a critical habitat for migratory birds. The forest reserve was among the country's highest rainfall areas and therefore a major water source for the adjacent and distant Pacific Coast farms as well as the nearby hydroelectric dams, which were the major source of electricity for southern Mexico and exports to Central America. Standing forests helped regulate the region's climate.

Coffee was traditionally the major crop in Chiapas, and farms had been operating around the base of the reserve for nearly a century before the government declared it a protected area in 1972. There were approximately 14,000 coffee farms operating adjacent to the reserve.[6] Although the scientific and preservation capacity at the reserve had increased significantly over the decades, the resources

[6] Most of the farms were small, but various medium-sized and large plantations also existed. In 1995 Chiapas witnessed the armed uprising of the Zapatistas revolutionaries. Subsequently, some of the larger plantations were invaded by other local groups. The military conflict had subsided in recent years, but as of 2002 no final agreement between the Zapatistas and the government had been reached.

available to the government's National Ecological Institute were too limited to field more than a few scientists and a half-dozen park guards.

CI's Conservation Coffee Program aimed to preserve and promote shade-grown coffee and prevent further deforestation in the buffer zone surrounding the reserve. Its habitats, forests, and streams were more easily protected when adjacent coffee was grown under a tree canopy. "It's not as biologically rich as a natural forest," Prickett explained, "but it can serve as a good corridor connection between natural forest areas."

Matthew Quinlan, who headed CI's Coffee Initiative, was hired in 1996 to lead the Chiapas project. He had spent his professional life in a variety of positions in the coffee business and was aware of the potentially high-quality coffee produced in the Chiapas highlands in the zone near El Triunfo. However, the task of getting small farmers to change their existing practices and embrace new conservation methods was daunting. Quinlan observed, "Farmers are great economists: 'A day doing what I know, I feed my family. A day trying a new way, I might not.' So we knew from Day One that we had to offer clear benefits to accelerate adoption of conservation practices."

The project began by offering technical assistance that would improve growing techniques and coffee quality for farmers. Additionally, CI provided organizational assistance to the farmer cooperatives so that they would be able to market their coffee more effectively and efficiently. The key to the project's success, however, was linking up with a major specialty coffee buyer. CI had an incipient arrangement with one buyer that fell through when the key champion of the project left the company and no one else stepped forward to take his place. Starbucks was clearly on CI's potential-partner map.

Finding Common Ground

CI's CEO Peter Seligmann was keen to create a partnership with Starbucks. He had met Starbucks Chairman Schultz socially in 1997 and was impressed by Starbucks' commitment to CARE and Schultz's dedication to social causes. Guiding this partner search was CI's standard due-diligence process. This entailed a list of 15 questions that were asked as part of a secondary research phase, followed by talking to a company's senior executives. One informal criterion was having a sponsor within the company, preferably a senior executive whom CI felt had a genuine commitment to the same issues as CI.

CI originally approached Starbucks in 1997 asking if it would source coffee from CI's pilot project. During an initial meeting that included Prickett as well as Dave Olsen, the Starbucks senior vice president who had crafted the company's first nonprofit strategic alliance with CARE, Starbucks was at first quite reluctant. As Prickett recalled, "Olsen basically said to us, 'You've got to put yourself in our shoes. People are always trying to sell us coffee. Our brand and our company are all about high-quality coffee. As a general rule, we don't buy coffee from just anybody. You guys are experts in conservation. Let's think about how we can develop a partnership that really leverages our respective expertise.'"

After reviewing the results of the due diligence he requested on CI and a variety of other conservation organizations, Olsen invited CI to Seattle to explore the two organizations' mutual interests in conservation and coffee. The group met with Sue Mecklenburg, then-director for environment and community affairs. Starbucks was already starting to get letters and cards from customers asking, "Why don't you buy shade-grown coffee? What are you doing to protect the rain forests where coffee is grown?" Quinlan recalled, "Sue was the first person we had to sell. If she hadn't blazed the trail, it wouldn't have happened."

Mecklenburg started by obtaining the support of Starbucks' coffee buying department for the project and its participation in crafting the terms of the memorandum of understanding (MOU). She indicated that the approval process for this agreement contrasted with the company's first alliance with an environmental group, the nonprofit Environmental Defense Fund (EDF), which she had promoted several years earlier. The purpose of that collaboration was to develop a more environmentally friendly coffee cup. The process of reaching an agreement to collaborate took eight months and extensive negotiations, Mecklenburg recalled:

> The original concern in dealing with an NGO [nongovernmental organization] was that the nonprofit organization would somehow expose the company. Because when you engage in a partnership, they don't sign confidentiality agreements like that, and actually you don't want them to. This isn't a consulting relationship where you buy somebody's opinions and their confidentiality. They don't work for you. They need to maintain their independence as an NGO, otherwise what they say is not really of the same value as it would have been had you gotten them to only agree to say what you'd like them to say. However, the Environmental Defense Fund revealed itself as a very professional organization. They were very respectful, responsible, and came across as credible. They're very savvy from a business standpoint, and so they could speak the language of business. They were led by a Harvard MBA.

In comparison, the process with CI moved much more quickly. An MOU was developed in four months based around the two organizations' interests and what deliverables each side could feasibly manage. Responsibilities were clearly delineated and timelines specified. According to Prickett, "From the beginning both sides saw the partnership not as an exclusive initiative, but more as a leadership initiative which we hoped to extend throughout the industry." In February 1998, the first MOU was signed by both Smith and Prickett for a pilot sourcing program. Starbucks agreed to go out to Chiapas and communicate to farmers what they had to do to bring their coffee up to its quality standards, although there was no commitment to buy. The company did commit to contribute $150,000 over three years. Meanwhile, CI's role was to work directly with the farmers, as it had been doing since its pilot project was launched in 1996.

Smith believed the partnership made sense and was confident it could work:

> From my perspective, compared to the EDF project there was less risk with the CI proposition from the get-go. This was one that I got comfortable with really early. They were pragmatic, and getting it done was what mattered most. The synergies between what they were trying to do environmentally and what we could do potentially with the coffee were attractive. The uneasiness that did exist was, what if the coffee's bad and we can't market it? That was the risk here.

Soon after the MOU was signed a group from Cl and Starbucks (members from the CSR and coffee buying departments) traveled to Chiapas. Over a four-day period, the group met with farmers and also trekked the 20 kilometers to the top of El Triunfo Biosphere Reserve. As Ben Packard, director of environmental affairs at Starbucks, put it, "The trip enabled us to see each other's dirty laundry. We were able to build trust by sharing that intense experience." The CI team discovered that in addition to its focus on sourcing a quality product, Starbucks was committed to conservation and had clearly defined corporate social principles. As Amy Skoczlas, CELB's senior director of business development and marketing, explained, "We realized during the time we spent together that we were not that different from one another. We both share the same sense of integrity with our marketing messages, and we are both dedicated to talking about results, not intentions."

In August 2000, the partnership was extended for another three years, and a second MOU was signed. Starbucks committed to contributing $600,000 over three years. The extended partnership would focus on four key elements:

1. Expanding CI's and Starbucks' work with farmers to promote conservation and improve livelihoods in a wider range of global biodiversity hot spots.

2. Supporting the introduction of a year-round product line that reflected Starbucks' commitment to alternative environmental agriculture and socioeconomic improvement in certain coffee-growing regions.

3. Developing coffee-sourcing guidelines that incorporated sound environmental management practices and provided fair livelihoods to farmers.

4. Seeking to engage other leaders in the coffee business in a collaborative effort to articulate industry-wide guidelines for environmental and social quality.

Project Operations, Progress, and Challenges

Operations The Chiapas project involved signed agreements between CI and each producer and its respective cooperative. Based on the degree of achievement of targeted farm improvements agreed upon between CI and each farmer and upon meeting Starbucks quality standards, producers would gain the right to sell an increasing percentage of their crop to Starbucks for its premium prices. There were two basic practices that had to be adhered to in order to remain in the program: no trees could be felled on producers' farms or in the Biosphere Reserve, and no coffee pulp could be thrown into the rivers. The other criteria included the planting of more and different varieties of shade trees, the conversion of coffee pulp and other organic matter into compost for fertilizing the coffee plants, the payment of fair wages, and the sheltering of hired farm laborers. The precise standards were tailored to each farm's physical and climatic production context and translated into a work plan agreed to by the farmer and against which performance was judged. Individual producers committed to delivering an authorized quantity of beans to their cooperatives, which in turn signed contracts with Starbucks. The cooperatives' beans were milled by an international exporter that handled the logistics of exporting to Starbucks, the major buyer. Additionally, the cooperatives sold to Green Mountain Coffee Roasters, Frontier Organic Coffee, and Sustainable Harvest Coffee Company.

CI had a team of three full-time and several part-time "extensionists" who visited every farm and monitored progress and results against these criteria. During the rainy season, many of the roads to the remote coffee farms were impassable. Still, the resultant computer database was the most complete production record to have ever been assembled for the cooperatives' members. To be certified as organic production, farmers' production methods were evaluated by international organic farming certifying organizations, which charged the farmers a fee. These evaluators found CI's database a very useful reference, as it provided more complete data than the evaluators were able to collect themselves.

CI provided training courses in the villages to the farmers, co-op managers, and technicians on quality control, organic farming methods, tree planting and pulping methods, among others. Business planning and management courses were given for the cooperative leaders. The extensionists tried to select one "model farm" in each community as a demonstration site for best practices.

CI operated a training center and nursery where it grew a wide variety of trees (on land donated by a cooperative) that it gave free to cooperative members and coffee plants that it sold for a nominal fee. The center also produced organic fertilizer, which it sold for about a third of the price of equivalent chemical fertilizer. It also had a demonstration dry mill designed with assistance from a Starbucks consultant. The center was financed jointly by Starbucks, Green Mountain Coffee, National Arboretum, and CONCAFE (the national government agency concerned with the well-being of the coffee industry). The Conservation Coffee Program also received major grant support from the U.S. Agency for International Development.

Quality was a major challenge. "Many producers of coffee," remarked Mecklenburg, "never taste their coffee. They don't roast it. They don't drink it. And even if they were to taste it, they don't have any idea what we'd be looking for on this end. So they lack information about what the market's expecting. We are in the process of communicating to farmers what we expect, what beans should look like, etc."

CI's staff played a direct role in quality control. It sampled and graded every lot delivered by a farmer. Every farmer's bag of beans was tagged and could be traced. The quality grade and the reasons for it were published for each farmer, and all reports were available for cooperative members to review. CI provided feedback to each farmer on any corrective actions that would improve quality. Dennis Macray, Starbucks' business practices manager, commented, "Starbucks does not generally deal directly with individual farmers. We could not do this without CI."

CI discovered early on that one of the major problems facing the small farmers was the lack of capital, which often forced them into selling some or all of their crop in advance of harvest at significantly discounted prices or borrowing from informal sources at exorbitant interest rates. In response, in 2001, CI set up a low-interest Conservation Enterprise Fund deploying $250,000 from a low-interest loan from the International Finance Corporation through the World Bank's Global Environment Facility, and a $150,000 co-investment by EcoLogic Enterprise Ventures guaranteed by Starbucks. Mecklenburg observed, "It took a very long process to get the company comfortable with guaranteeing loans like this. It probably would have been easier and cheaper to just write the check."

The process of working with individual farmers and their cooperatives was intense and demanding because of their lack of business and commercialization skills and the geographic isolation of the coffee communities. CI worked with six cooperatives, two of which had obtained organic certification from the international certifying organizations; the other four were in transition to being certified. They ranged in organizational age from two to 10 years and in size from 69 to 300 members. The typical farm was about four hectares, had been in the family for multiple generations, and was usually farmed by the owner with occasional hired labor, particularly during harvest.

For the 2002–2003 crop cycle, CI expected 1,018 producers to enroll in the program. Quinlan observed:

> There are many small cooperatives, which is inefficient in terms of marketing, but jealousies keep them from collaborating. They are human institutions and have their politics, personal interests, and personalities. Further complicating this is the issue of whether they are businesses or social organizations. Bringing them into the global marketplace is like putting goldfish in with the sharks. But you do no favors pretending that the market is not what it is. We need to prepare them to meet the demands of the marketplace. This is complicated when the cooperative leadership turns over every few years and institutional memory is lost.

Mecklenburg reiterated the difficulties: "In the U.S., sometimes people tend to think farmers should be in co-ops, because then they could be in organized economic units. But it would be like going to your neighborhood and saying, 'Our block is going to go into business together.' So to get farmers to work together, pool their crops, share the risk, the resources, and the potential profits is not so easy."

In addition to working with the cooperatives, CI had also developed a close relationship with the staff of El Triunfo Reserve, although initially this was not the case. After CI had begun working with the cooperatives, the reserve, in collaboration with another NGO with funding from the World Bank's Global Environmental Facility, launched a similar effort, and both were working with the cooperatives. After a series of discussions, there was a mutual decision to operate the projects separately. One of the reserve managers noted, "In the beginning we were competitors with CI, but our alliance with the other NGO didn't work out. Their approach was quite rigid, whereas CI would work with and learn from the farmers and then adjust, and that was producing results. A change in leadership and staff at CI, including one of our scientists joining them, also created a greater disposition to collaborate with us. We now share fully our information and knowledge." CI's training courses began to include an orientation by reserve staff about the importance of El Triunfo to the farmers.

Progress The efforts with the farmers and their cooperatives had produced significant results. Since 1998, the coffee-growing land incorporated into the CI conservation program increased 220%. In the first year of the collaboration Starbucks bought two containers (76,000 pounds) of shade-grown coffee from the cooperatives, at prices significantly higher than the prevailing market price in the zone. The company held a small news conference to announce its introduction of shade-grown Mexican coffee and, somewhat to the company's surprise, it got an enormous amount of coverage: 45 million news impressions, including in *USA Today*.

"But the cynics came out of the crowd," recalled Mecklenburg, "and said, 'This was only two containers.' I came back to Orin and said, 'People say this is not a serious effort at conservation. I can't defend 76,000 pounds of coffee in a company that's dealing with hundreds of thousands of pounds, so either we need to get serious about this, or we need to discontinue it.'"

Purchases of shade-grown coffee increased to 1.5 million pounds by 2002 and was offered throughout Starbucks' U.S. stores in 16-ounce bags selling for $12.95. (It would also be offered in the new Starbucks outlets scheduled to open in Mexico City beginning in late 2002.) Starbucks would buy coffee that was shade grown and met its quality standards even if the producers were only "in transition" to achieving organic certification. CI's CEO, Seligmann, noted in a 2000 press release that "Starbucks is making a real difference in the quality of the natural environment while helping farmers that live in sensitive ecosystems. Our project in Chiapas has resulted in a 40% average increase in coffee farmers' earnings, a 100% growth in the cooperatives' international coffee sales and $200,000 in non-Starbucks loans to farmers' cooperatives." (See **Exhibit 8** for sales increases and price premiums.) The credit extended for 2001–2002 was $500,000, and all loans since the program was started had a 100% repayment record.

An outside consultant doing an independent review of the CI project concluded that farmers' environmental awareness and knowledge had increased significantly, as had conservation and organic farming practices. Cooperatives' performance had improved, although there remained large differences among them. Many farmers were not very aware of CI as an organization separate from their cooperatives. One farmer commented that what he found valuable in the program were "the better prices and the training courses." The big and medium-size coffee growers were not part of the CI program. Several of the largest plantations in the area had stopped or cut back harvesting since 1999 because of the low world prices. The manager of one large plantation lamented, "What else can I do? With these world prices, we cannot cover our costs." One medium-size family farmer with 90 hectares stated, "For us, switching from chemical fertilizers to organic would greatly cut our yields, and that would kill us given these low prices."

In 2001, Smith joined the board of directors of CI. He believed that preserving environmental diversity was a high-priority issue facing the world and that CI's approach of blending the environmental with the economic was particularly effective. He thought that, as a board member, "I can participate in something that might actually make a difference. Also, it fits with what I do with my job." Other company CEOs also on the CI board or partnering with CI manifested interest in purchasing shade-grown Mexican coffee, for example, Hyatt Hotels and United Airlines, which ended up purchasing 300,000 pounds to serve on its flights in 2002.

Challenges In spite of the progress, there remained concerns about the Chiapas project. Smith himself noted, "With this great project, when I look at how much has to be invested, by us, by CI, by the people they have in the field, how much hands-on training—I start asking, 'Is this something that can be rolled out?'" Under the second MOU, CI had agreed to develop conservation coffee projects in additional countries and was in the early stages in Colombia and Costa Rica. CI's Quinlan asserted, "Through a process of trial and error, we have been able to develop an approach that can be subsequently tailored to the local context of different project sites."

Macray shared a dilemma: "Can we even communicate effectively and credibly to our customers and partners about El Triunfo and all the related issues, or should we just do good and not worry about communicating at all?"

Strategic deliberations within CI were also raising issues. There was considerable debate about CI shifting its traditional focus away from field-based projects and moving more toward advocacy, policy, and scientific research. The prospect of the Chiapas project having to transition into a new stage in which it would have to be largely self-sufficient and independent of CI was causing considerable anxiety and frustration among the highly motivated local Chiapas field staff. As the Chiapas program evolved, Starbucks was facing further procurement challenges brought on by the sourcing guidelines it created in 2001 and by the incursion of the Fair Trade movement.

Beyond Chiapas: Starbucks' New Coffee-Purchasing Guidelines

In November 2001, Starbucks announced new coffee-purchasing guidelines developed in partnership with CI and aimed at supporting its commitment to purchase coffee grown and processed by suppliers "who meet important environmental, social, economic, and quality standards." Mary Williams, senior vice president of coffee at Starbucks, and Marc Schonland, vice president of coffee, stated, "We hope to create a network of industry leaders who will join us in finding a way to create positive changes within our global coffee community. Our objective is not to replace existing supplier relationships, but rather to enlist our current suppliers and others as partners in developing truly sustainable sources for the world's best coffees." The guidelines were largely based on the "conservation principles for coffee production" developed by CI as one of the first initiatives of CELB, under the leadership of Justin Ward, senior director, Agriculture, Forestry and Fisheries, Consumer's Choice Council, the Rainforest Alliance, and the Smithsonian Migratory Bird Center. The principles were reviewed by a wide range of other nonprofit groups and a multitude of coffee-system stakeholders, including Starbucks and other companies.

Under Starbucks' new system, introduced as a two-year pilot project, suppliers of any size or location could earn up to 100 points for performance in three sustainability categories: environmental impacts (50 points), social conditions (30 points), and economic issues (20 points). Producers could receive up to a $.10/lb. premium over Starbucks' regular prices, or about $.01 for each 10 points awarded. (See **Exhibit 9** for detailed criteria.) If a supplier met all the criteria, that is, scored 100 points, it would become a preferred supplier and its coffee would receive priority in Starbucks' purchasing queue. A producer's performance had to be verified by an acceptable, independent third party, although Starbucks was flexible on whom the verifiers would be.

Mecklenburg's reaction to the guidelines was, "While the Chiapas project is totally amazing and beyond what any of us could have imagined, it pales in comparison to what we've done with the sourcing guidelines. What we wanted to do with these is really define what sustainable coffee production is." Through weekly conference calls between CI and Starbucks staff, the coffee conservation principles were converted into the purchasing guidelines. CI's Skoczlas stated, "The implementation of those guidelines is our next challenge." Prickett added, "If only one company in the industry is doing the right thing, it's not going to solve the problem, so for the good of the industry and the good of the world, you need to have the whole industry doing it." Thus, the larger challenge facing both CI and Starbucks was not only to convince its suppliers to meet the guidelines but also to inspire other coffee buyers to use them.

Dealing with the Fair Trade Movement

The Fair Trade movement started in the Netherlands in the late 1980s as a way to organize small farmers producing various commodities into cooperatives and to improve their incomes by pressuring buyers to pay guaranteed minimum prices. It was primarily funded by governments and NGOs. There were about 500,000 small coffee farmers registered in the Fair Trade system.

The Fair Trade movement thrust itself onto Starbucks in February 2000 when the activist NGO Global Exchange launched a protest at the company's annual meeting, demanding that Starbucks sell Fair Trade coffee. Mecklenburg recalled:

> It wasn't that we hadn't been in the cross hairs of advocacy groups before. The Seattle Audubon did a letter-writing campaign at one time asking us to sell shade-grown coffee. But this was much more aggressive. It was difficult to have rational communications. I had said to them, "We would really like to collaborate with you because we share your concerns about prices the coffee farmers get." And the response back from Global Exchange was, "We have no experience in collaboration. That is not how we operate." There was a lot of pressure to sell Fair Trade coffee. Ultimately, the decision was up to the CEO.

Smith recalled:

> I had some concerns. Not about the Fair Trade groups' ability to severely damage our business, but their ability to influence people inside and outside the company to perceive our practices negatively. It's not the way I want to be seen by any of our customers or by any of our partners. It's an unfair characterization. We invest so much effort in trying to do things right that we're probably more sensitive when we're criticized for something we haven't done. The staff was largely against giving in to the demands, but what I said to our people was, "What is it they're trying to do here? Isn't what they are concerned about also what we're concerned about?" So I asked them to figure out some way we can work together on this rather than bashing one another.

After some discussions, Starbucks entered into an agreement with the nonprofit TransFair USA, on whose board the founder of Global Exchange served. TransFair provided independent certification for all Fair Trade coffee in the United States. It maintained a registry of certified roasters and retailers and verified that the guaranteed minimum price was paid to the farmer cooperatives. Mecklenburg recalled:

> We tried to approach them the same way we did Conservation International. We would support their organization, we would work with coffee farmers to try and improve coffee quality, we would provide financial assistance, we would raise public awareness. Their

> response was, "No. We sell certification seals and this is the way we need to deal with you. We really can't take money like that from a company, because we are a licensing organization." This may have some validity, so trying to approach them in the same way didn't work. So we found ourselves in the very uncomfortable position of potentially having people protesting our stores and decided that we would sign up to sell Fair Trade coffee. The trust we developed with Conservation International and Environmental Defense Fund had been built up with mutual respect, understanding one's needs, and carefully working through processes. Unfortunately, we didn't have the opportunity to do that with TransFair.

In April 2000, Starbucks signed an agreement with TransFair to buy Fair Trade-certified coffee that met its quality standards up to an amount that met consumer demand. The minimum prices were $1.26/lb. for nonorganic and $1.41/lb. for organic, less transportation costs. This did not include the $0.10/lb. licensing fee Starbucks paid to TransFair.

The company introduced Fair Trade-certified coffee into its product line in October 2000 with a large promotion. In fiscal 2001, Starbucks purchased 653,000 pounds of Fair Trade-certified coffee and sold 186,000 under the Fair Trade label; sales in the university market segment tripled during the year. Fair Trade-certified was featured in Starbucks stores as Coffee of the Day in May. Being featured as a Coffee of the Day generally resulted in about 45,000 pounds of consumption. In September 2001 Starbucks set the goal of purchasing a million pounds of Fair Trade-certified coffee over the next 12–18 months and introducing it into its international markets.

By 2002, about 200 million pounds of coffee production worldwide had been certified as Fair Trade coffee, while only about 40 million pounds had been sold at Fair Trade prices. Fair Trade coffee had been selling in Europe since the early 1990s, where it accounted for 1.7% of the market. Approximately 7 million pounds were imported into the United States in 2001, of which about 4 million pounds were sold as Fair Trade.

Global Exchange and TransFair continued to pressure Starbucks to purchase larger quantities, but the company encountered constraints on the supply and demand sides. Mecklenburg observed, "The Fair Trade movement is very focused on solidarity among small farmers and paying good prices, which we as a company tend to do, but we have other things to be concerned about which aren't necessarily being met in the Fair Trade model."

Smith added, "They put us in a box where they want us to sell stuff they certify which doesn't meet our quality standards. And that undermines our whole reason for being there. The only thing they have to sell now is neediness of producers. And there's a portion of the population that responds to that, but the vast majority don't."

TransFair had not demonstrated interest in working on improving quality among its registered farmers, as it did not see that as its mission. Separately, Starbucks had entered into an agreement in 2002 with Oxfam America, a development and relief NGO, to help increase the supply of high-quality coffee from the small coffee producers in the Mexican state of Oaxaca who belonged to CEPCO, a federation of 45 cooperatives with 18,000 members, 6,000 of whom were certified organic. The manager of CEPCO commented, "This will permit us to know Starbucks quality standards and develop a closer relationship with them. There is no obligation for them to buy or us to sell, but it opens a large door."

Starbucks' coffee quality manager, Andrew Linneman, indicated that although the quality of Fair Trade coffee was a problem, it was improving. Macray added a concern from the customer side:

> If quality hasn't been addressed at the supply side, the assumption is that this should be a charitable act. We should engage in this because these farmers deserve this break. Balancing

these issues is really tough. While we may commit to purchasing a larger amount of Fair Trade if we can, we also hope the market will respond favorably to that. And, at this point, we're not seeing that, which is a challenge for us. The other side of the argument could be, "Well, it's up to us to educate our customers on why Fair Trade and supporting small farmers is important." It remains to be seen if education will change customer behavior with Fair Trade coffee and Starbucks' other coffees in the commitment-to-origins category.

Looking Forward

Smith reflected on his many interactions with NGOs:

> They do produce change that is sometimes very useful, and it's often the case that I can't quarrel with what they would really like to see happen. I may not always like the way they're doing it. But as much as you might be offended by what's being said, as much as you allude that they're absolutely wrong, it is a mistake to ignore that. There is something there that I should pay attention to. Those NGOs are part of the structure. They are influential on a lot of different fronts. Some of them we can work with to mutual advantage. I want to search for a common interest where it's mutually advantageous to work together. I may not always be able to find that, but it's usually there.

Much had been accomplished through Starbucks' alliance with Conservation International, but several issues required further reflection:

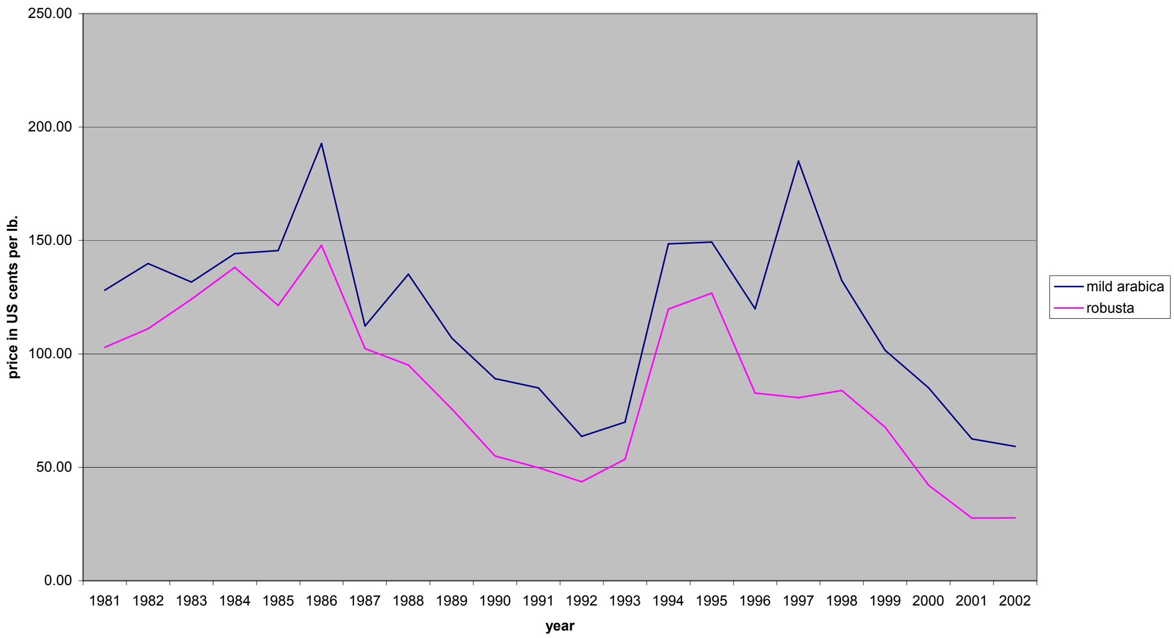
- What lessons could be learned from the Chiapas project?
- Was the approach replicable?
- What should the ongoing strategy be for Mexican shade-grown coffee?
- How might CI and Starbucks replicate the success of Mexican shade-grown coffee in other biodiversity hot spots with less commitment of their own staff time?
- How should the new coffee-purchasing guidelines be implemented?
- How should Starbucks and CI approach other roasters to adopt the sourcing guidelines?
- How might the Fair Trade coffee operation be related to the shade-grown conservation coffee operation?
- How valuable had the Starbucks-CI alliance been to both, and what should its future be?
- What were the benefits/risks for a corporation that portrays itself as socially responsible?

Exhibit 1 Starbucks Financials, FY 1999–2001 (in $ millions)

Annual Financials	FY 1999	FY 2000	FY 2001
Income Statement			
Revenue	1,680.1	2,169.2	2,649.0
Cost of goods sold	1,326.2	1,684.3	2,068.0
Gross profit	353.9	484.9	581.0
Gross profit margin	21.1%	22.4%	21.9%
SG&A expense	89.7	110.2	151.4
Depreciation/Amortization	107.5	142.2	177.1
Operating income	156.7	232.5	252.5
Operating margin	9.3%	10.7%	9.5%
Total net income	101.7	94.6	181.2
Net profit margin	6.1 %	4.4%	6.8%
Balance Sheet			
Cash	66.4	70.8	113.2
Net receivables	47.6	76.4	90.4
Inventories	180.9	201.7	221.3
Total current assets	386.5	459.8	593.9
Total assets	1,252.5	1,493.1	1,851.0
Short-term debt	64.2	57.0	62.7
Total current liabilities	251.6	313.3	445.3
Long-term debt	7.0	6.5	5.8
Total liabilities	291.5	344.8	475.1
Total equity	961.0	1,148.4	1,375.9
Shares outstanding (mil)	366.6	376.3	380.0

Source: Hoover's.com, accessed July 27, 2002.

Exhibit 2 New York Market Coffee Prices



Source: International Coffee Association.

Note: Average prices for 2002 based on year-to-date monthly prices as of July 2002.

Exhibit 3a Major Coffee Exporters (annual exports in thousands of 60-kg. bags)

Country	1996	1997	1998	1999	2000	2001
Brazil	13,703	17,310	15,392	21,090	21,185	18,576
Colombia	10,786	11,176	10,911	10,292	9,035	9,437
Guatemala	3,713	4,224	3,890	4,593	4,901	4,414
India	3,572	2,476	3,685	3,426	4,500	3,704
Indonesia	4,350	6,772	5,509	5,716	4,765	5,406
Ivory Coast	2,900	3,905	5,049	2,264	5,834	4,270
Uganda	4,214	4,237	3,032	3,648	2,917	3,075
Vietnam	3,679	5,422	6,615	6,689	10,914	14,442

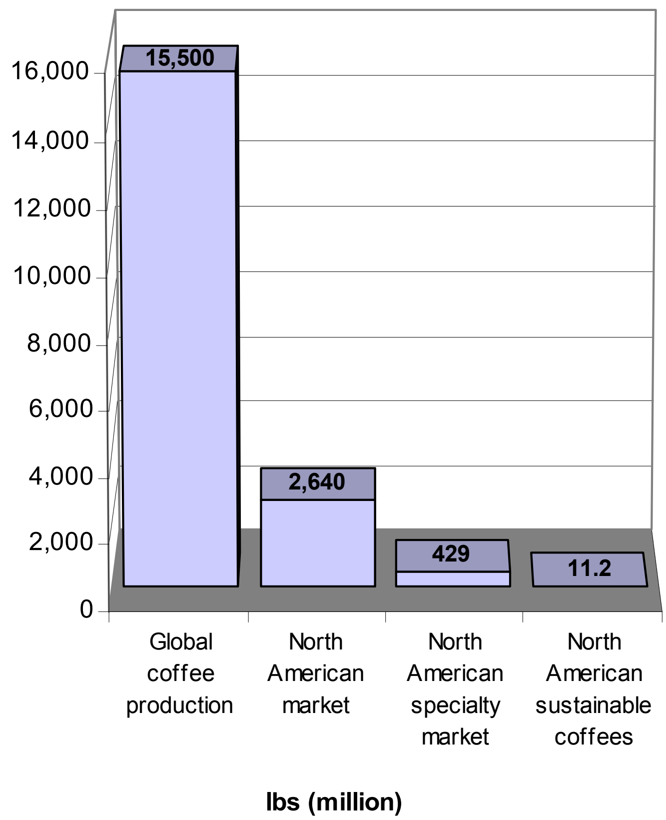
Source: Adapted from International Coffee Association data.

Exhibit 3b Major Coffee Importers (annual imports in thousands of 60-kg. bags)

Country	1995	1996	1997	1998	1999	2000
United States	17,107	19,449	20,349	21,048	22,786	23,827
Germany	12,852	13,565	13,951	13,809	14,446	14,382
France	6,214	6,733	6,829	6,615	6,666	6,597
Japan	5,597	6,078	6,048	6,097	6,617	6,975
Italy	5,388	5,610	5,745	5,920	5,975	6,344
Spain	3,146	3,539	3,818	3,778	4,030	3,820
Canada	2,510	2,763	2,864	3,410	3,315	3,141
United Kingdom	2,807	2,960	3,004	3,227	2,953	3,096

Source: Adapted from International Coffee Association data.

Exhibit 4 Commodity and Specialty Coffee



Source: Starbucks.

Exhibit 5 Coffee Prices for Growers and Consumers (in U.S. cents per lb.)

Country	1996	1997	1998	1999	2000	2001
			Average price paid to growers in top exporter countries			
Brazil	96	145	105	74	66	39
Colombia	93	132	102	86	75	56
Vietnam	66	67	77	49	28	16
			Average price paid by consumers in top importer countries			
Germany	503	476	496	433	346	
Japan	1,524	1,422	1,352	1,532	1,292	
United States	343	411	377	343	354	

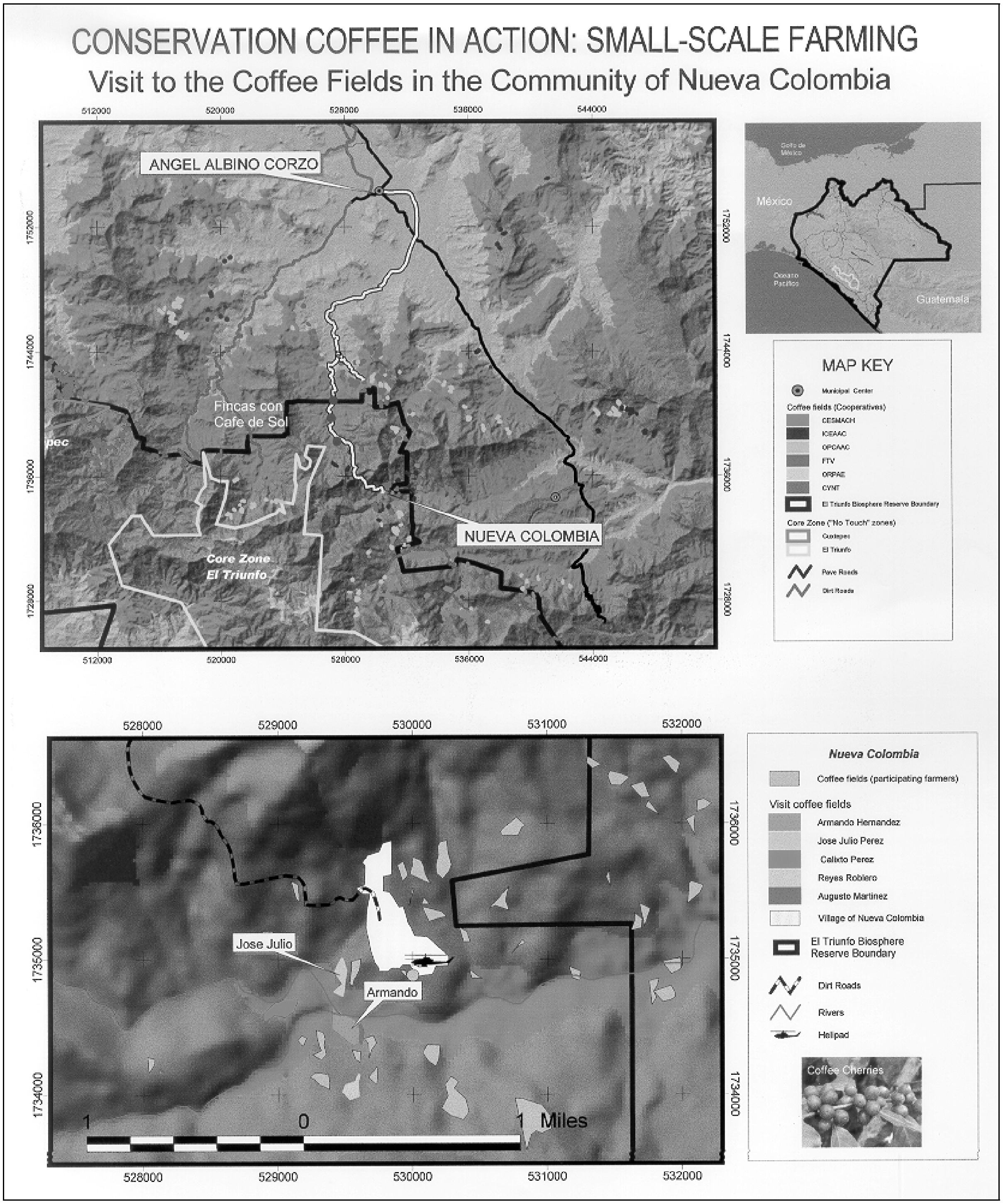
Source: Adapted from International Coffee Association data.

Exhibit 6 Conservation International Board of Directors

Membership as of October 31, 2001			
Peter Seligmann Chairman/CEO Conservation International	**Barry Diller** Chariman/CEO USA Networks	**Oscar Lopez** Chairman/CEO First Philippine Holdings Corp.	**Kenneth F. Siebel** Chief Investment Officer, U.S. Trust Co. of California
Gordon E. Moore Co-Founder/Chairman Emeritus Intel Corporation	**Sylvia Earle** Chairman Deep Ocean Exploration and Research	**Craig O. McCaw** Chairman/CEO Eagle River, Inc.	**Orin Smith** President/CEO Starbucks Coffee Co.
Meredith Auld Brokaw Conservationist	**Mark L. Feldman** President/CEO L&L Manufacturing Co.	**John E. McCaw, Jr.** Chairman Orca Bay Capital Corp.	**Ray Thurston** CEO Edgewood, L.L.C.
Lewis W. Coleman Gordon and Betty Moore Foundation	**Robert Fisher** Director Gap Inc.	**Elizabeth J. McCormack** Associate Rockefeller Family & Associates	**Edward O. Wilson** Pellegrino University Research Professor Harvard University
Harrison Ford Actor	**Michael H. Glawe** Director Emeritus UAL Corporation/United Airlines	**Nicholas J. Pritzker** Chairman/CEO Hyatt Development Corp.	**Lorenzo H. Zambrano** Chairman/CEO Cemex, S.A. de C.V.
F.Noel Perry Managing Director Baccharis Capital	**Judson Green** President/CEO Navigation Technologies Corp.	**Stewart A. Resnick** Chairman Roll International Corp.	**Tamsen Ann Ziff** Ziff Brothers Investment
Henry H. Arnhold Co-Chairman Arnhold and S. Bleichroeder, Inc.	**Charles J. Hedlund** Chairman Emeritus Conservation International	**Story Clark Resor** Conservationist	
Michel Batisse Senior Environmental Advisor UNESCO-SC	**William H. Kent** Chairman William Kent International	**Alfonso Romo Garza** Founder/CEO Pulsar Internacional, S.A. de C.V.	
Lord John Browne Group Chief Executive BP p.l.c.	**S.K.I. Khama** Vice President Republic of Botswana	**Claude Rosenberg, Jr**. Founder/Former Chairman Rosenberg Capital Management	
Louis W. Cabot Chairman Cabot-Wellington L.L.C	**Joel Korn** President WKI Brasil Servicos Ltda.		

Source: Conservation International.

Exhibit 7 Map of Mexico and El Triunfo Biosphere Reserve



Source: Conservation International.

Exhibit 8 Cooperatives' Export Sales to All Clients

	% Increase in Sales (lbs. of green coffee)	% Increase in Price over Local Price
1999–2000	125	40
2000–2001	50	61
2001–2002	110	87

Source: Conservation International.

Exhibit 9 Starbucks Sourcing Guidelines

Quality Criteria: Prerequisite

Every coffee offered must meet Starbucks quality standards in order to be considered for purchase. High quality is an integral component of sustainability at all levels of the coffee supply chain.

Qualifying varieties	Only arabica varieties of coffee will be purchased.
Flavor characteristics	Starbucks cup quality standards are based on specific descriptions for each coffee purchased. Every coffee is expected to represent the flavor character unique to the country or region of origin. All coffees are expected to provide a perfectly clean cup with medium to heavy body, and excellent aroma. All washed coffees must be of Good Hardbean or better density and have good acidity.
Defect-free beans	Starbucks requires zero defects in grade, good even color, and consistent bean size.

Environmental Impacts: 50 points

Coffee growing and processing systems should contribute to conservation of soil, water and biological diversity; employ efficient and renewable energy technologies; minimize or eliminate agrochemical inputs; and manage waste materials consistent with the principles of reduction, reuse and recycling.

Soil management	Farm management practices should effectively control erosion and enhance soil structure and fertility, relying as much as possible on means such as organic fertilizers, cover crops, mulch and compost.	5 points
Water reduction	Coffee should be processed using methods that reduce water consumption.	5 points
Clean water	Coffee should be processed using methods that prevent pollution of surface water and ground water.	5 points
Water buffer zone	Vegetative buffer zones should be in place adjacent to all water sources. No alteration should be made to the courses or hydrology of streams or other surface water bodies.	5 points
Forest and biodiversity conservation	Coffee production systems should maintain and enhance biological diversity on farms and surrounding areas without disturbance of natural forests.	5 points
Use of shade	Existing coffee farms in forest regions should maintain or enhance shade canopy cover with diverse tree species that conserve local and endemic biodiversity.	5 points

Energy use	Coffee growing, processing and drying should use energy efficiently, employ renewable sources wherever possible, and not rely on firewood obtained from forest clearing. For example, patio drying should be used as much as practical and solar coffee drying technology employed where feasible.	5 points
Pest management	Integrated pest management systems are employed, limiting pesticide application to extreme cases when necessary to avert severe crop loss and substantial economic failure.	5 points
Accepted agrochemical	Coffee production systems should minimize and wherever possible eliminate inputs of agrochemicals such as chemical pesticides and synthetic fertilizers. Farms are certified organic, use organic management techniques or are otherwise demonstrating significant reductions in the quantity of synthetic agrochemicals being applied. No agrochemicals that are banned for agricultural use in their country of use, country of origin or by international agreement are stored or used on the farm.	5 points
Waste management	Waste and coffee by-products are managed to minimize environmental impacts by applying the principles of reduction, reuse and recycling, for example, composing or recycling of coffee pulp and parchment.	5 points

Social Conditions: 30 points

Coffee production systems should ensure protection from workplace hazards and conform to local laws, as well as to applicable international conventions related to employee wages and benefits, occupational health and safety, and labor and human rights.

Wages and benefits	Coffee farms that employ workers should conform to local laws and applicable international conventions related to workers' rights and benefits and are in a process of continual improvement over time. Wages and benefits should meet or exceed the minimum required under local and national laws. Workers' rights to organize and negotiate freely with their employers are guaranteed in accordance with local laws and international obligations.	10 points
Health and safety	Working conditions should meet or exceed applicable laws and regulations related to health and safety of workers. Effective measures should be taken to ensure the health and safety of farm workers who may handle or be exposed to agrochemicals.	10 points

Living conditions	Workers and their families, including seasonal workers, are provided with access to potable water, sanitary facilities, adequate housing, education and training, transportation, and health services.	10 points

Economic Issues: 30 points

Coffee production systems and commercialization should benefit rural communities by boosting producer incomes, expanding employment and educational opportunities, and enhancing local infrastructure and public services. In order for coffee production to be sustainable, it must be economically viable at all levels of the supply chain, from seed to cup.

Long-term relationships	Starbucks seeks to develop long-term trading relationships with preferred suppliers.	
Incentives	Through its purchasing and pricing policies, Starbucks seeks to provide incentives and support for sustainable coffee production, processing and shipping methods.	
Economic transparency	In order to ensure that the entire supply chain—farmer, miller, exporter, and importer—benefits from the Starbucks preferred supplier program, and importers benefit from the Starbucks preferred supplier program, vendors are expected to provide reliable documentation regarding prices paid to their suppliers.	20 points

Source: Starbucks.

Exhibit 9 (continued)

Starbucks Green Coffee Purchasing Program Outline of a System for Independent Verification

Starbucks recognizes that the effectiveness and credibility of the new purchasing guidelines and preferred supplier program will hinge upon regular monitoring and independent verification. Participating suppliers will be expected to furnish Starbucks with reliable third-party documentation regarding their progress in meeting Starbucks guidelines. In addition, Starbucks will assess the degree to which the overall goals of the program are being achieved, and will work with vendors to set targets for increased participation and continuous improvement. Starbucks envisions having progress toward meeting these measurable targets subject to independent audits. Such audits will likely be based upon representative samples of the results reported by individual participating suppliers. Starbucks will report annually on the progress and outcomes of the program.

As an integral part of the first phase of program implementation, the detailed design of the verification system will be developed during the coming year in consultation with growers, vendors and other stakeholders. Plans will be established jointly with each vendor, and different options will be tested, to ensure that verification is tailored to fit individual circumstances. Development of the system will take into account existing experience with applicable monitoring and verification tools employed by various industries.

Among other basic features, the verification system must be:

- Affordable, without adding significantly to production costs, and drawing to the greatest extent possible on existing relevant documentation.
- Flexible, to encourage innovation and diversity in best practices and methods of documentation.
- Accessible, with procedures that are transparent and understandable to all participants throughout the supply chain.

It will be necessary for participating suppliers to enlist the services of institutions qualified to conduct independent verification of activities and outcomes related to the Starbucks guidelines. Such institutions might include:

- Private sector accounting firms, certification organizations, or consulting businesses.
- Non-profit NGOs, academic institutions, or research organizations.
- Government agencies with divisions, departments or programs relevant to and compatible with the Starbucks guidelines.

It will be essential for qualified organizations to have sufficient expertise and capacity on matters relating to coffee production and supply chains. An additional prerequisite in all cases will be avoiding conflicts of interest. Individuals performing verification activities should have:

- Relevant professional experience and training.
- Ability to communicate in the local language of coffee origin locations where supplier practices are undergoing verification.
- Capability of making field visits.
- Skills required to prepare concise, coherent reports on verification findings.

Participating coffee vendors will have ample discretion in choosing verification organizations. A sample list of organizations with verification expertise is attached. Starbucks may engage the services of one or more established organizations to assist in the design, testing and refinement of the verification system. Hence, suppliers may be asked to cooperate in an audit of this program initiated by Starbucks.

Implementation of the purchasing guidelines is intended to complement Starbucks commitment to increased transparency along the coffee supply chain. Although the verification system for the Starbucks purchasing guidelines will have some elements in common with third-party certification, it is not our intention to create a new certification and labeling program within the coffee industry. The key distinction is that the purchasing guidelines will provide a basis for long-term relationships with our suppliers to encourage improved environmental and social performance. The guidelines program is not a substitute for chain-of-custody tracking and labeling of particular certified coffee products, which Starbucks will continue to offer in increasing quantities.

Organizations with Verification Expertise

- Conservation International
- Rainforest Alliance
- ECO-OK
- OCIA
- International Labor Organization, Washington, DC
- Scientific Certification Systems
- QAI
- EcoLogica
- Icafe, Costa Rica
- Cicafe, Costa Rica
- Anacafe, Guatemala
- Colombian Coffee Federation
- Cenicafe, Colombia

Source: Starbucks.