COST OF ESTABLISHMENT & PRODUCTION OF COFFEE

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PROJECT OVERVIEW

- The Relationship Coffee Model establishes a direct, long-term trading partnership for high-quality coffees between buyers and smallholder growers.
- To evaluate the costs of establishment and production related to coffee farming, we collected data from various Latin American cooperatives (ADISA, COMSA, FCC) for small-holder farmers.
- Our results show that there is a lack of transparency involved in the costs of coffee production, which creates a gap in knowledge for long-term coffee farming profitability.

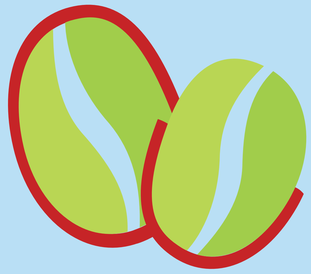
Coffee Farming Business Cycle and Activities

Phase	Year	Main Activities
Establishment	Year 0: Land Preparation and Planting	Collection and selection of seeds
		Seedbed
		Nursery
		Weeding or cleaning
		Planting
	Year 1: Vegetative Growth	Weeding
		Fertilization
		Leaf Spraying
Maintenance	Years 2 - 8: Established Plantation	Weeding

Verify *SUSTAINABLE* practices

METHODOLOGY

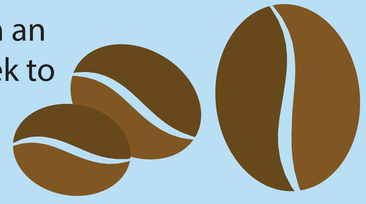
Our goals is to estimate the cost of production per hectare of an average (benchmark) small producer, seeking the best representation and arriving at a detailed and complete set of costs.



DATA COLLECTION

Approach 1: Individual surveys with producers to carefully and extensively record their expenses and tasks for the timeline defined.

Approach 2: Discussion panels with an average of 3 to 4 producers that seek to reach a consensus regarding the production costs.



PROBLEM

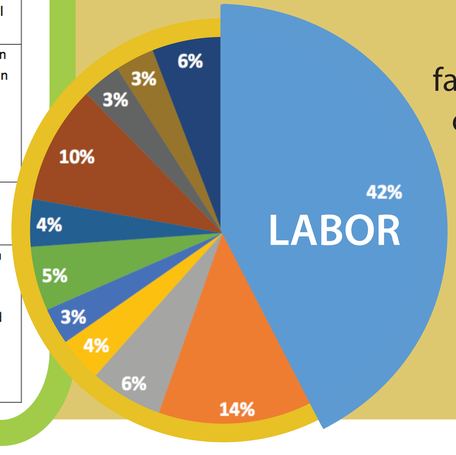
1. Coffee Commodity: Volatile prices make it difficult to cover production costs when these costs are not transparent.
2. Cost data and structure remain unfamiliar to farmers, industry, and policymakers because there is a lack of transparency involved in the costs of production

Paying a *FAIR PRICE* for coffee

ADISA Breakeven Estimations ($/lb)

	Cost definition	Parchment production cost (US/hectare)	Breakeven (US/pound)	Breakeven Implications
1	**Total Variable Costs**	2,960	0.83	If the return is below this level, coffee is uneconomical to produce.
2	**Total Cash Costs** = Total Variable Costs + Membership & Certification Costs + Taxes on Land + Miscellaneous Supplies	3,130	0.88	The second breakeven return allows the producer to stay in business in the short run.
3	**Out of Pocket Costs** = Total Cash Costs + Depreciation Costs	3,954	1.11	The third breakeven allows the producer to stay in business in the long run.
4	**Total Costs** = Out of Pocket Costs + Amortized Establishment Costs + Management Costs + Opportunity Costs	4,563	1.28	The fourth breakeven return is the total cost breakeven return. Only when this breakeven return is received can the grower recover all out-of-pocket expenses plus opportunity costs.

ADISA Total Costs



RESULTS

The current price paid to farmers covers out of pocket costs, but not total costs.

CONCLUSION

- Cooperatives do not cover all their costs; even though they are mid-term sustainable, current price and productivities do not cover all opportunity costs.
- This data can be used to generate a flexible interactive tool to help monitor cost assumptions, inputs, and outcomes.
- The tool can help analyze the sustainability of different productivity strategies and be used for risk analysis
- Cost transparency and analysis can help impact prices in the long-term and makes coffee farming more profitable.