



THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

CANNING HOUSE RESEARCH FORUM

Adding value to coffee and cacao in Latin America



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Introduction

Third-wave coffee and fine chocolate are part of high-end food movements, covering products ranging from beer to cheese, that are moving away from mass production and homogenous goods towards singularity and decommodification.¹ These affluent markets reward high-quality and artisan skills and have an appreciation for a single origin, direct trade, and provenance.²

High-end coffee and chocolate are morally infused products through which consumers exercise resistance by boycotting certain brands and choosing to buy others. Both products have been at the epicentre of Fair Trade campaigns. In fact, coffee was the first agricultural product to bring ethical issues, such as premium prices and sustainability, into its marketing campaigns, emulated later in chocolate.³

These modes of production have been promoted by development agencies and governments as a route to improving the lives of those at the tail-end of each supply chain.⁴ The main reason for encouraging these practices is the promise of better prices for these products, as they are more highly valued than conventional goods in the international market and rely on fewer intermediaries. But how much of this gets to the producers? What are the implications of these models for small-scale farmers? How are cacao and coffee farmers adding value to their products? This report analyses these forms of production to answer these questions in the context of Costa Rica and Peru, and it puts forward policy recommendations that could improve the current situation.

As mentioned above, fine chocolate and third-wave coffee are part of a wider food movement disrupting traditional ties of dependency, presenting new opportunities for direct trade that circumvents multinational corporations while adding new forms of value to crops not previously recognised for their artisanal worth. But why study these two in particular?

These cases are important examples to look at when thinking of new forms of trade in Latin America as they are intended to reverse the low growth trajectories of the regional economies. Also, they are crops with relevance in the region, Latin America produces 90% of world's fine cacao and is home to the top specialty-coffee producing countries (such as Colombia, Guatemala, and Costa Rica). In addition, high-end, single origin coffee and chocolate make up the fastest growing segment of both markets today, although they represent just a small fraction of the overall supply. Finally, the comparison is relevant as specialty coffee, though similar to fine chocolate, has an older history enabling the development of a more sophisticated industry and market. This allows chocolate to draw important lessons from the coffee experience, whether to emulate or avoid. To better grasp the implications of these models, it is important to first understand how these trends developed more generally and what they entail.

Overview of Third-wave Coffee and Fine Flavour Chocolate

Third-wave coffee represents 27% of the global supply of washed arabicas and the fastest growing fraction of the market.⁵ The coffee world has identified three main phenomena that have defined the era of international coffee consumption. The first was the increase in popularity of commodity coffee in the mid-twentieth century, via brands that were familiar to consumers because of other goods.⁶ By the 1970s, small roasters that highlighted the unique qualities of coffee emerged, and they differentiated themselves from commodity blends that had a more homogeneous taste profile.⁷ Another moment of transformation happened with the end of the international coffee agreement in 1989; this was because fewer restrictions resulted in an increase in production and differentiation.⁸ Consequently, in the early years of the first decade of the new millennium, and led by the growth of Starbucks, the second wave spread worldwide. This phase saw a growing preoccupation with ethical and environmental issues from consumers, followed by the rise of Fair Trade and other certifications.⁹

Third-wave coffee deepens the specialization of beans, promoting specific high-altitude (a height of more than 400 metres above the mean sea level), rare varieties, and new brewing processes. Tastemakers use cupping protocols to classify beans, guided by the Specialty Coffee Association. In a measuring system of





100 points, anything scoring above 80 is specialty coffee (belonging to the second wave), and anything in the high 80s is third wave. Nearly all third-wave coffees are single origin and from micro-lots.¹⁰ To guarantee the traceability of the lots and to personalize the brewing methods, farmers have to process their own beans, as opposed to selling them as cherries. This practice separates growers from the conventional system in many ways, including growers owning a micro-mill.

Unlike coffee, the differentiation of cacao beans does not follow a particular standard dictated by an official entity. Two known cacao types exist, however: fine or flavour and bulk or ordinary. The bulk beans come from the forastero tree varieties and make up between 85% and 90% of the total market.¹¹ In contrast, beans from the criollo, trinitario, nacional, and piura porcelana tree varieties are considered to have a fine flavour.¹² These varieties originated from northern South America and Central America. Today, they can be found mainly in Venezuela, Ecuador, Peru, Central America, Papua New Guinea, the Caribbean Antilles, Sri Lanka, East Timor, and Java. In the eighteenth century, fine cacao beans dominated the market, but this dominance has now been reduced to a niche market because of disease susceptibility and low productivity, in addition to the incorporation of stronger varieties such as CCN-51.¹³

As the name entails, fine cacao has outstanding characteristics, including a greater flavour palette with distinct aromas. Therefore, gourmet and many dark chocolates found in the Global North come from fine cacao varieties. The demand for fine flavour cacao outweighs supplies, creating a potential attractive niche for its chain development. This is evident in the prices for fine cacao on the international market, where it receives a price 30% to 60% higher than ordinary cacao.¹⁴ Because of price and demand, the government and international NGOs have viewed the production of fine cacao as a way to reduce poverty in some countries of South America. This is the case in Peru and particularly in the region of San Martín where this research took place.¹⁵

How Has Cacao Developed in Peru and Coffee in Costa Rica?

Even though cacao cultivation in Peru goes back hundreds of years, it was not until just after the new millennium began that the crop experienced an accelerated growth.¹⁶ The cacao boom developed mostly in the Amazon regions, once complicated by internal conflicts due to the Túpac Amaru Revolutionary Movement and Sendero Luminoso, coupled with the illicit commercialization of the coca leaf.¹⁷ As part of the pacification process, a UN-led project, in conjunction with USAID and the Peruvian national and regional governments, implemented an alternative crop programme in the San Martín and Ucayali departments. The programme promoted the cultivation of various crops, including cacao, with farmers voluntarily choosing to withdraw from coca.¹⁸ For instance, from this study sample, all the producers (except one who migrated to the area five years ago) were introduced to cacao cultivation through these development projects.

The success of the switch from coca to cacao in the San Martín region was such that it resulted in the term 'the miracle of San Martín'. Coca went from being 46% of the San Martín's gross value in 1992 to 0.5% in 2008.¹⁹ In contrast, by 2020, rice had become the most important agricultural product, representing 33% of gross value, and cacao was in third place at 14%. Today, San Martín is the largest cacao-producing region of the country, and 42% of the country's cacao is produced there.²⁰

This 'miracle' helped elevate cacao production nationwide, and it increased from over 22,000 metric tons in 1998 to 160,222 in 2021.²¹ Peru has now become the third-largest producer in Latin America and the eighth in the world.²² As for fine cacao, Peru is one of the three main producers worldwide, along with Ecuador and the Dominican Republic.²³

Despite this background in terms of prices and appreciation in the international fine cacao trade, the ethnographic data demonstrated a different situation. The findings showed that two main issues are preventing cacao producers from fully benefiting from the differentiated cacao market:

• No recognition for the value of fine cacao in the local market. There is little difference in local market prices from cooperatives and traders for fine and ordinary cacao. Consequently, and because of the labour intensity and propensity of fine cacao for plagues, producers prefer to





prioritize bulk varieties.

 Major imbalances in the chocolate value chain. On average, cacao producers only obtain 11% (or less) of the final price of chocolate.²⁴ On the other hand, the last two actors of the value chain – located in consumer countries – make up 70%.²⁵ This restricts heavily the possibility of growth from producing countries.

Unlike cacao in Peru, coffee has been an essential part of the Costa Rican economy for more than two hundred years, and so the development of this sector is more complex. Costa Rica's engagement with coffee took off after independence in 1821, when the municipality of San José, followed by Cartago and Tres Ríos, promoted the cultivation of coffee by selling land at below market prices, and by delivering coffee plants to farmers.²⁶ These actions supported the transition of the Central Valley's common land to private ownership by small and medium-sized agricultural business owners, who mainly used family labour.²⁷ The commercialization of coffee always had an eye on exports; therefore, the state facilitated this economic activity with tax exemptions and land ownership. The European markets, particularly the British market, were the most important ones, and in 1841 the country exported its first batch to London.²⁸

The coffee sector developed alongside Costa Rica's emergence as a nation-state. As part of the national imaginary, the idea that democracy was established on the basis of a society of small-holding coffee farmers has persisted. Scholars have contested this myth, arguing that a coffee elite monopolized the best land and marginalized small growers.²⁹

Since the first cultivation in the nineteenth century, coffee plantations have moved away from the Central Valley to other areas of the country, spreading in six of the seven provinces. Today, Costa Rica has 26,704 producers, 86.7% of which are small-holding growers who contribute 39.3% of the national production.³⁰

Costa Rican coffee only represents 0.87% of world coffee exports. Its importance lies in its high-quality level, as shown in the export prices. As of 2022, the average Free on Board (FOB) price was 28% higher than the New York stock market price. The main export destinations are the United States (45.1%), Belgium (23.5%), and Germany (6.7).³¹

The country shows a steady growth in third-wave coffee. For instance, in 1998, there were four micro-mills registered nationwide, while there were 206 in 2022. This expansion is particularly strong in the Los Santos area, as micro-mills there account for a third of all the mills in the country.³²

The ethnographic data from this report show that three main factors influence the growers' capacity to add value to their coffee and to their livelihoods:

- Initial investment puts producers at risk. For farmers to progress to micro-lot exports, a significant
 investment needs to be made, mainly in infrastructure. As opposed to cacao producers, this initial
 capital is the producers' financial responsibility, who essentially fall into debt. The decisions they
 make on how to start their business are crucial for their economic sustainability. Their failure to
 repay the incurred debt has resulted, in some cases, in their land being seized and thus their
 livelihood disappearing.
- Micro-mills benefit medium-sized producers more. Growers with micro-lots earn more than those
 who trade in cherries. But this model benefits medium- and large-sized producers more, because of
 issues such as milling costs, productivity, and crop varieties. In addition, there are hidden costs that
 small growers do not consider as labour.
- The individualized model is disintegrating cooperatives. Micro-coffee milling is bringing a new dynamic to coffee production, from the weakening of cooperatives to the creation of new metrics, which thus gives value to the symbolic sphere- those attributes that cannot be measured by the human senses, such as narratives, origins, and modes of production - changing the landscape of coffee communities.

Both cases in this study suggest that, even though the route to fine cacao and third-wave coffee requires differentiation and upgrading pathways, which are generally recommended in the global value chain





literature, there is no significant improvement in the lives of small-scale farmers.³³ This is mainly because most of the profit from these goods is made in the last steps of the value chain – removed from the producing countries. Third-wave coffee and fine chocolate from a single origin have, in most cases, more transparent and shorter value chains; however, there is an 'unidirectional' flow of power from North to South.³⁴ The particularity of these specialized chains is that, despite the importance of origin, control over it – what growers have – is not where most of the value lies; the value is rather found in the translation of these qualities into symbolic domains.³⁵ This means that coffee roasters, chocolatiers, and retailers still control most of the profit. In sum, there is no radical redistribution of value.

Given that, even in the cases of specialized goods, the highest profit belongs to the last steps in the value chain, this report suggests actions that push for manufacturing in the place of origin to secure more control and value acquisition. These policy implications – though specific for each context, using successful case studies from the sample, which follow these examples – are based on the idea that by building a stronger manufacturing industry, exporting countries would have more bargaining power, thus improving returns.³⁶ In addition, by setting regulations for raw material within each country, a more equal distribution of profits would be possible.

Third-wave coffee and fine chocolate consumers are inclined towards fairness, and they have proven to adapt their purchasing choices based on their moral compass. Campaigns exposing unfair prices and exploitation in both value chains have resulted in important changes such as Fair Trade certification.³⁷ A key to this model's success is based on exposing how the current model contradicts the vision that these trends – third-wave and fine chocolate – are more just and transparent, and that, in fact, manufacturing at origin would enable a fairer distribution of value.

The argument of manufacturing as the basis for development has been discussed for several decades (see the Policy Implications section), particularly regarding Latin American nations. This report indicates is that there is a uniqueness to these trends (as opposed to bulk coffee and chocolate) which makes this an opportunity for materializing this idea. Besides the emphasis on quality, within these trends consumers are attracted to issues around terroir, artisanship, and direct trade. All three of these areas have more relevance if these goods are fabricated at origin, and they make this an advantage over the competition. This is shown by other successful examples of Latin American products manufactured at origin with similarities to fine chocolate and specialty coffee. Such is the case of Chilean wine, which is a strongly export-oriented product (80% of wine produced is exported), is mainly vertically integrated, and owned by local investment.³⁸ Wine more generally is a product that, just like fine chocolate and third wave coffee, has a strong emphasis on quality, artisanship, and terroir. Third wave coffee and fine chocolate borrows ideas, language, and metrics from wine.³⁹ Scholars describing these trends often compare it to wine because of these similarities.⁴⁰ Despite these comparisons, it would be unthinkable to consider a wine from Chile if it had been aged and bottled in Europe. In fact, it is inconceivable to think of any wine being manufactured anywhere other than the place of origin of its grapes. The report exposes these contradictions and highlights the opportunities for change to improve the prospect of fine cacao and coffee producers.

This report is structured as follows. The next section delves into the ethnographic data explaining the realities of cacao producers in Peru and coffee growers in Costa Rica. This section also exposes the impacts of these agricultural practices on the communities more generally. After the findings from the collected data are presented, the report continues with a series of recommendations. The policy implication of manufacturing in the producing countries is more general and can be applied in different contexts. There are, however, also specific actions suggested for each country and sector, which could improve the current conditions. The report finishes with a reflection on the lessons that could be learned from previous policies that focused on producers or producer countries and did not address the root cause of inequalities.







Case Studies

Cacao in Peru

The findings from this study about cacao are based on 35 in-depth interviews and two focus groups completed mainly in the San Martín region. The sample included various groups from Peru's cacao sector (producers, cooperative representatives, scholars, and chocolatiers), and other actors from outside the country with expertise in cacao and chocolate. Since this study focuses on the lives of growers, this group is the largest. It consists of 25 people who represent three cooperatives, two associations, two limited companies, and independent producers, respectively.

The data collected indicates that two main factors influence farmers' capacity to add value to their cacao. First, the local market prices for fine cacao are virtually the same as for bulk cacao, which discourages producers from growing this variety. Second, one of the main factors preventing producers from adding value to their beans is the unequal distribution of value in the cocoa chain. Policies should therefore focus on solving disruptions elsewhere in the chain, instead of focusing on what producers can improve. However, in order to understand these two issues better, is it relevant to first outline how these growers were initiated to cacao cultivation (as it impacts the future of the crop), therefore the next section expands on this.

Initial Capital and Motivation

The cacao sector in San Martín has been financially engineered by various bodies working alongside the UN's programme to encourage cacao cultivation as an alternative to coca leaf farming. All the cooperatives, limited companies, and independent farmers in this study (except for the company Choba Choba) received funding from a development or state institution either to start their project or to boost its production once established. None of them claimed to have used loans or investors (apart from Choba Choba, as detailed below) to start or support their business.

As for the cooperatives and associations, they received initial capital from government-led institutions and private sector partnerships. In contrast, independent producers in the sample were supported by various agencies and local governments at several stages of their production journey through their providing tools, training, and technical support.

The Ministry of Agricultural Development and Irrigation (MIDAGRI) has played a key role in facilitating this study's independent growers in switching from coca to cacao production. It also supported the formation of two chocolate micro-enterprises in the sample. MIDAGRI has also provided agricultural technical guidance, which was essential to the cacao boom's success in the area. Local governments (see Table 1) have also been involved in the establishment of San Martín's cacao industry by distributing resources and completing technical assistance projects.





Table 1: Funding Bodies

Institution's Name	Туре	
MIDAGRI (Ministry of Agricultural Development and Irrigation)	Public/Governmental	
FONDCODES (Cooperation Fund for Social Development)	Public fund from the Ministry of Development and Social Inclusion	
DRASAM (Regional Agriculture Directorate of the San Martín Region)	Decentralized public body, which is part of San Martín's regional government	
GORESAM (San Martín Regional Government)	Public/Governmental	
Tabalosos Municipality	Public/Governmental	
El Dorado Municipality	Public/Governmental	
Chazuta Municipality	Public/Governmental	
USAID Peru	Foreign public entity	
Alianza Cacao	Public/Private alliance	

The private and public partnership (Alianza Cacao Peru) and foreign development agency (USAID Peru) were instrumental in supplying funds for the formation of producer cooperatives and chocolate manufacturing enterprises. USAID initially provided thirty-six million dollars to Alianza Cacao Peru, which was formed to improve cacao production in different regions of the country by implementing projects such as promoting new technologies, improving harvest and post-harvest processes, and facilitating access to financing and differentiated markets.⁴¹ Alianza Cacao had two phases; the first began in 2012 and aimed to promote cacao cultivation in the Amazon basin and to secure a withdrawal from coca production. The second phase, which ended in 2022,⁴² sought to improve the competitiveness of the cacao and chocolate value chains in Peru.⁴³

The birth of the cooperatives and associations in this study is linked to the arrival of USAID and later Alianza Cacao in their region. The various organizations claimed that economic assistance was more significant when beginning the shift to cacao production, as the funds aimed to make the transition from coca to cacao as simple as possible. As Carlos, the head of Allima Cacao, described it:

We [Allima Cacao] began in 2002. At that time, the area was full of drug trafficking and terrorism. So, USAID cooperation arrived with alternative products incentivizing farmers to switch from coca to cacao. All the cocaleros [coca-leaf producers] decided to leave coca for crops like corn, chiringa and cacao ... So, that's how it was born. At the beginning, the assistance was one hundred per cent. But there was a reason for all the handouts; if you didn't give everything to the growers, simply no one would have stopped cultivating coca. That's why, at the start, they gave them everything: they supported them with the land, with the plants, tools – everything.

The only cooperative that did not receive any financial support for its creation as part of the wider project to switch coca to cacao was Choba Choba. There are, however, two important considerations: all of Choba Choba's current members were coca growers in the past and made the transition to cacao through





one of the aforementioned funding bodies. For instance, many were part of a cooperative named ACOPAGRO, but they left to form this new project.

How these organizations were financed reveals an issue when thinking about the sector's growth, namely, the limited financial offer that cacao farmers received. According to a study commissioned by MIDAGRI, most financial institutions are often reluctant to offer credit to small-scale individual farmers in general, and cacao growers are no exception.⁴⁴ Cacao producers soliciting credit would have their loans rejected because of a lack of guarantees, no property titles, and various other matters associated with being a small farmer.⁴⁵ Consequently, now, when the development and government agencies are finishing up their projects, most producers have no other reliable source of credit to maintain or grow their plantations.

The data expose how all the associations, cooperatives and even the independent producers' initial capital came from funding bodies that subscribe to the idea that an intervention was needed in the Peruvian Amazon to eliminate coca production. This reality is pertinent for the current report because it reveals important information about the motivations underpinning cacao cultivation. As Carlos from Allima told me, 'We are cultivating cacao because that has been the crop that was imposed on us to replace coca'.

Farmers are not emotionally invested in cacao – as is the case, for example, with coffee in Costa Rica – nor is the consumption of its fruit or chocolate a significant part of their traditions. For them, it mostly represents a way out of coca. In other words, they have no other reason to grow cacao other than for economic aims. This lack of attachment coupled with the type of financing explained earlier poses crucial questions about the future and economic sustainability of the cacao industry in the region, especially now that the Alianza Cacao project is over. Could the cooperatives and micro-enterprises become self-sufficient? There needs to be new ways to motivate farmers to continue working in cacao, as the alternative could potentially be for them to return to coca cultivation. New possibilities of directing these efforts are discussed in the Policy Implications section.

Cacao Varieties and Price Differences

Even though the fine and bulk cacao definitions exist on paper within expert circles, unlike coffee, the terms 'specialty', 'fine', and 'craft' chocolate are used loosely in marketing and advertising campaigns because of a lack of industry definitions and standards.⁴⁶ Consequently, it is challenging for consumers to recognize whether chocolate has been made from fine or bulk cacao beans. This is important because, as a former International Cocoa Organization (ICCO) official explained, 'There is an important amount of chocolate that is perceived – in terms of prices especially – as fine when in fact it is from bulk cacao beans'.⁴⁷

Despite the average consumer's lack of knowledge, fine cacao has been identified as an attractive niche because demand outweighs supply, and so prices are elevated.⁴⁸ Many cooperatives promoted higher-value fine cacao varieties with government and international NGO encouragement – for instance from USAID, Alianza Cacao, Devida, and MIDAGRI – as a way for growers to gain better returns from their yields and therefore reduce poverty while substituting coca.⁴⁹ These state and international community initiatives have been effective at introducing and maintaining cacao production as an alternative to coca. Households involved in cacao cultivation grew from an estimate of 30,000 in 2006 to as many as 90,000 in 2015.⁵⁰ This was also evident in the conversations with producers, as most of the interviewed growers used to plant coca and claimed they had no intention of returning to that crop. Nonetheless, these efforts have not succeeded in building a strong structure for fine cacao varieties, particularly in the San Martín region. As of 2014, only 6.5% of the land grown with cacao was planted with fine varieties, with hybrid CCN-51 the most popular variety.⁵¹

The findings show that producers are reluctant about growing fine varieties because there is no guarantee for a premium in the regional market. Of all the producers interviewed, only one cooperative (Choba Choba) has a significant price difference (18.5% higher – see Table 2) for fine cacao, incentivizing the production of this type of cacao. Presently, 20% of Choba Choba's production is from fine-bean varieties. Even here, not all Choba Choba associates are willing to commit to planting fine cacao, especially those from older generations. As Nelsia, a woman in her fifties, put it, 'I have a few trees, here and there, but it's







just too much work for me. I had too many plagues with cacao aromatico (fine cacao); I can't control it, especially at this age'.

The rest of the sample (not including Choba Choba) had two main thoughts regarding the value of fine cacao. One thought was that the prices are effectively the same. For instance, ACOPAGRO or Allima guaranteed that fine cacao would be paid at the higher end of the price scale of 1.88 dollars per kilo (see Table 2). Yet organic and bulk cacao would be paid the same. In this same group, the Asociación de productores de Tabalosos and independent growers from Chazuta and Tabalosos also claim to make no difference between varieties.

There are also producers in Sisa (the capital of the El Dorado municipality in the San Martín region) who claim intermediaries pay higher prices for fine cacao but not enough to make up for the risks and difficulties associated with the production of these varieties. Fine cacao trees are more vulnerable to plagues and therefore require more time and a larger workforce for maintenance.⁵² These beans are also less productive (there are fewer beans per tree) as their pods are smaller than other cacao varieties such as the hybrid, disease-resistant CCN-51. Therefore, in many cases, the fine-bean harvest's low volume prevents them from imagining or obtaining better returns. As Miguel, an independent producer who sells to intermediaries, told me:

Fine cacao beans are very good, but you need to put in more time; let's say, time in care, time in pruning, and they tend to get more plagues. Whereas the other ones, like CCN-51, don't need much pruning and its harvest time is faster. Fine cacao takes between six and seven months, from when it blooms to harvest, while CCN-51 only takes five months. Looking at prices, sometimes chocolatiers pay you a little more, but it's a very small market. But in production, as I told you, CCN-51 will beat it by 500 kilos.

"

Organisation	Pre-fermented beans (payment to producers)		Processed beans (as sold to intermediaries)	
	Fine	Bulk	Fine	Bulk
Choba Choba	4.30	3.63		
Allima cacao	1.88	1.88		
ACOPAGRO	1.66 to 1.88	1.66 to 1.88		
Asociación de productores de Tabaloso		1.66 to 1.88		
Independent producers			2.69 (Sisa)	1.61-1.75 (Chazuta) 1.96 (Sisa) 1.88-2 (Tabalosos)

Table 2: Cacao Prices (US\$/kg)







Certification is another way for growers to access better prices. Organic certification was the most common kind used by cooperatives in this study because it was perceived as more valued by buyers.⁵³ All growers interviewed claimed to have organic cacao.

At the national level, organic cacao has grown, and Peru is currently the second-biggest organic cacao producer worldwide.⁵⁴ The growth of organic cacao in the country is associated with its premium, which is 24% higher than conventional beans.⁵⁵ As one of the growers described it, 'Organic certification opens markets, it gives us the opportunity to sells our cacao at better prices, that's why I stay with the cooperative, I don't want to lose the certification'.

Different certifications such as Organic, Fair Trade, and the Rainforest Alliance have helped growers add value to their cacao, but growers are still struggling to make a living. Rainforest Alliance and Organic certification deals mainly with issues regarding sustainable production. The certifications try to minimise the use of agrochemicals and encourages labour intensive plague control mechanisms. Fair trade on the other hand, focuses more on the well-being of workers and producing communities. A central feature of these certifications is that the consumer pays a higher price for these products to reflect the cost of these commitments.

Development efforts to encourage fine cacao were put in place because bulk cacao varieties (with certifications) did not prove to be an economically attractive option. Maria del Pilar Castillo Pérez, Choba Choba's president, explained her views on the market prices for bulk beans and said, 'With the stock market prices we will not earn a living wage. For the volume and quality that we produce that is unjust. That is why we do not stick to them in Choba Choba'.

In fact, this cooperative in particular offers a higher price for fine cacao (as mentioned above) but also for bulk beans. Choba Choba, however, is the exception, as all the other cooperatives in the sample based their prices on the stock market.

Unsurprisingly, most of the interviewees have another source of income besides cacao production. The study found that only five producers' livelihoods depend solely on cacao production (members of the Cooperativa Tabalosos and two independent producers). These five producers are particular in that they have one or two hectares more land than the sample average, or they have previously received a capital injection. For instance, in one of the cases, a foreign private company used this growers' farm as a pilot project for an irrigation system, providing many free tools and technology-enhancing production.

The remaining growers in the sample described their situation in one of the following ways: the first situation included cases where cacao was their primary source of income, and they supplemented their earnings with a second crop for less basic needs. It was common, for instance, to find producers growing crops such as beans or maize in addition to cacao.

The second situation consisted of a group of producers that use cacao production to complement their household's main provider. This group is formed of women whose partners, in most of the cases, were the breadwinners. Their income from cacao allows them to satisfy their personal needs without their partner's authorization. This was the case with Rogelia, an independent producer, when she explained what she does with the cacao returns. She said, 'With the cacao money I can buy my soap, deodorant, and things like that'. Rogelia, like many of these women, also completes other commercial activities (such as crafts) to help support her family.

What the study reveals is that neither fine cacao nor ordinary cacao forms an economically sustainable source of income for small growers in Peru. None of the prices within the national market can provide a living wage for families. Most farmers need to rely on either other crops or other economic activities to subsist.

In the international market, however, fine cacao is substantially more valuable. This tells us that, as other authors have pointed out and we explored in the next section, exporters and intermediaries are the dominant actors in the value chain, and they have control over what qualifies as valuable.⁵⁶





Social and Power Imbalances

As presented in the previous two sections, the markets in Peru's biggest cacao-producing region, San Martín, does not price fine cacao proportionally higher than bulk beans. This situation has discouraged growers from working with fine cacao, as these varieties are less productive and more vulnerable to plagues. Most importantly, the findings demonstrate that cacao cultivation does not represent an opportunity for growers to achieve economic stability or, in some cases, lift them out of poverty. The data show that several problems prevent producers from having a better life. For instance, the lax and restricted technical support that leads to low productivity is one example, and the effects of climate change limiting the yields is another.⁵⁷ Two main issues, however, stand out as the most influential; difficulties in entering the specialty market, a lack of understanding of it, and the distribution of power in the cocoa value chain.

Access to the Market and Symbolic Value

The cacao-producing organizations from the sample (ACOPAGRO, Allima Cacao and Asociación de Productores de Tabalosos) have not been able to differentiate their cacao successfully. As has been said before in this report, in the international market fine cacao is more valuable than bulk, obtaining premiums of 30% and even 60%.⁵⁸ In addition, bulk cacao from Peru can also secure higher prices because of its origin. Nevertheless, these organizations are currently selling their fine or bulk cacao beans as a commodity at stock market prices, which has been reported to impoverish growers.⁵⁹

They argue that they have tried to add value to their cacao in the past. 'The problem is accessing the market. Where can I sell my beans?' said Gonzalo, the president of ACOPAGRO, when I asked him about fine cacao production and other ways of differentiating their products.

Networks and connections to high-value markets are an important obstacle that most of the cooperatives in the study face. The study findings exhibit two main problems in this vein: (i) little exposure to these buyers, and (ii) a lack of social and cultural capital to communicate the value of their product.

The complications over connecting with buyers interested in outstanding cacao quality have forced most organizations in the sample to sell their fine cacao as ordinary. As the head of Allima Cacao, one of the cooperatives that produces fine cacao, described:

We end up selling [fine cacao] at the same price, paying more to the producer, which is good, although not for the cooperative's financial health, which ends up affecting all the growers. This is because we end up mixing and selling everything as one. And if we want to have a batch of 100% fine cacao ... we don't have customers, so we have stopped.

Poor infrastructure is a contributing factor to the producers' inadequate exposure to high-end markets. For instance, until 2015, the headquarters of Allima Cacao, Tabalosos, and Misky Cacao did not have basic services such as the internet. Working without these tools makes the work of organizations that need to find buyers, negotiate, and keep up to date with the stock market extremely challenging. The constraints in movement (to the capital city and abroad) in terms of time, safety, and cost is also a consideration.

An important limitation is that there are no active efforts in place to search and approach high-end markets. When asked how they access their customers, all cooperative managers stated that their buyers come to them. As a head of one cooperative stated, 'Sometimes we go to fairs, but we have met most of them when they visit us, through word of mouth'. In short, they secured most of their clientele through people having contacted them. This makes the process of selecting suitable buyers more complicated, as they are left to choose from those who visit them, instead of their targeting potential buyers.

The new wave of market differentiation views chocolate production as a craft activity. In this context, symbolic values are highly valued.⁶⁰ Most producers from the sample possessed the material prerequisites to obtain higher prices: Peruvian growers, fine cacao varieties, the size of their farms, switching from coca to cacao, etc. These characteristics, however, did not translate into the language that specialty markets speak because producers lacked the training to transfer the material value they provided into symbolic domains.⁶¹





They fail to communicate and sell these regarded symbolic values because most cooperative and association representatives, and, to a bigger extent, growers, showed very little knowledge of these trends. Their disconnection from symbolic spheres was visible in how they perceived the market and where they focused their efforts. For instance, cooperatives' and associations' agendas are heavily invested in productivity and material values; these organizations approach their search for more suitable markets passively, and they pay almost no attention to narratives of their cacao. As mentioned before, their story (as former coca producers), their place of origin, and the varieties they grow are all highly valued on the market, yet these aspects are not exploited when selling.

Productivity and bean quality is essential for positioning the product in specialty cacao markets. Yet more work needs to be done to add value, and good first steps would be (i) accessing those buyers that reward the type of cacao they offer, and (ii) exploiting their symbolic realms. The findings show that most cooperative managers lack the social capital and skills to communicate symbolic value in order to benefit from the premiums of these new metrics.⁶²

An Unequal Value Chain

While the constraints of accessing high-end markets and the lack of social capital is a significant issue stopping growers from gaining better prices, there is a limit to how much revenue they can obtain even in the best circumstances. This is because the main obstacle facing all actors in producing countries is value imbalances in the chocolate commodity chain.

A report published by the Food and Agriculture Organization of the United Nations (FAO) and the Bureau d'Analyse Sociétale pour une Information Citoyenne (BASIC), the first in-depth study of the distribution of value and costs along chocolate chains, estimated that, on average, cacao growers only receive 11% of the final price of products derived from this crop.⁶³ The two last actors of the chain (brands and retailers) accumulate 70% of the total value and only 18.6% of the total value is generated by players in cacao production countries (from producers to exporters).⁶⁴ This means that, even if producers are trained in management and marketing, and have better access to high-end buyers, there is still a cap to the value they can acquire.

The findings from the FAO and BASIC report show that the highest percentage of value creation occurs on 'intangible leverages' of the chain, an area dominated by chocolate manufacturers, brands, and retailers. In contrast, cacao-producing countries like Peru mainly participate in the raw material production segment.

A good way to explain this argument is through comparing the sample, with Choba Choba as the exception. This company is involved in various steps of the value chain beyond production, from manufacturing to branding. They have a factory in Switzerland where all of its cacao beans are transformed into chocolate. Choba Choba were able to position their products (primarily chocolate bars) exclusively in niche markets in Europe, mostly in Switzerland and Liechtenstein. From the organizations that participated in this study, Choba Choba is unique in various ways: it produces cacao and manufactures chocolates (and subproducts), and then it sells these in the Global North. Most importantly, it has its own brand and is involved in the marketing stages.

Choba Choba's insertion into these stages of the value chain means that, in line with FAO and BASIC's estimates, they can convert more than 18.6% of the total value, which is normally what players in producing countries would receive. Unsurprisingly, Choba Choba pays their producers 92.8% more for their beans than the sample average (see Table 2). Even though Choba Choba's model differs from the other associations and cooperatives (for example, their business structure and their better technical support), the quality of their beans is not dissimilar.⁶⁵ What stands out is that, as an organization, Choba Choba is involved in manufacturing and branding, where most of the value is located.

These results pose important questions for policy implications. The producing countries have room for advancement, and this would benefit cacao growers; they could expand their technical support to obtain higher productivity. The findings, however, show that even under ideal production circumstances, this would not be enough to impact growers' lives, as on average they only receive 11% of the final price.⁶⁶ How





high should chocolate prices be to guarantee producers' economic stability?

We should not focus only on improving cacao growers' and producing countries' performance, as we know there is an uneven distribution of value in the commodity chain, which producers have little control over. We should rather, direct efforts to change these imbalances, one solution would be to encourage producing countries to manufacture their chocolate before exporting it to European and North American markets. These ideas will be detailed in the 'Policy Implications' section.

Coffee in Costa Rica

The research on coffee is based on 42 in-depth interviews representative of different groups in the Costa Rican coffee sector. The main group consists of producers who owned a micro-mill. Within this grouping, we find farms that range from three to seventy hectares located in two of the eight coffee regions of the country: Valle Occidental and Los Santos. The second-most significant group is the cooperative sector; here, we spoke mainly with managers of cooperatives but also with farmers belonging to different cooperatives. We also interviewed representatives from organizations that provide support for growers, ranging from the Costa Rican Institute of Coffee's (Icafe) executive director and Icafe technicians through NGOs representatives. Lastly, we included in the sample national and international roasters and exporters.

The data revealed three central factors affecting growers' well-being and ability to add value to their coffee. This section expands on these main findings. First, it explains how micro-mills are a significant investment that leads producers to fall into debt. This potentially puts their livelihoods (the coffee plantations) at risk if the micro-mill is not sustainable. The high financial investment also means that smaller or economically weaker producers are excluded from these forms of trade. Secondly, there are the market prices and revenues that producers obtained. The data shows that producers who have their own micro-mill earned more than those who sell cherries. However, this model benefits medium-sized producers more because of the cost of milling, productivity, the rewarding of rare varieties, and hidden labour costs. Finally, this section exposes how third-wave coffee is altering coffee-production dynamics, as individualized milling has weakened cooperatives, and the creation of new metrics is moving away from a production-centred model to a focus on symbolic spheres.

Financing Micro-lots

Starting a micro-mill and exporting micro-lots is an important risk for small farmers. Not all producers of high-altitude, specialty coffee are able to move to this model. An important factor is finding the initial capital to build the pertinent infrastructure.

In most cases, growers built a mill to process their coffee. The expense of building and maintaining the infrastructure is each producer's financial responsibility. The costs of equipment and infrastructure depend on each project's needs. The final budget varies according to the production area, the plantation's average production level, access to water, access to electricity, the type of drying process used, etc. Producers often take advantage of the different resources their land provides in order to reduce costs. For instance, they may use wood from their farm and use gravity to transport coffee to pulpers, thus decreasing their energy usage. And they may find other creative ways to lower the investment needed. Nevertheless, their minimum investment is calculated at \$11,000.⁶⁷

Determining the average amount of money needed to start their business from our sample is complicated. Not all growers shared the total they had put into their micro-mills. In addition, the sample included diverse sizes and types of micro-mills. For instance, some micro-mills have drying machinery, others dry the beans in the sun, and the plantation size varied from three to 69 hectares. Therefore, the obtained figures range from \$55,524 to \$333,144.

One important issue producers face with their own mill is that many jump too quickly to building industrialized infrastructure. In an effort to increase their production, producers buy equipment of a capacity that exceeds their needs. This leads to underused infrastructure and energy wastage. In addition,





mill-design errors are common, resulting in less efficient processes. These obstacles have been corrected in some cases thanks to experience and training provided by the different institutions within the agricultural sector. This unnecessary spending, however, has caused the closure of many micro-mills. The biggest danger is that these actions may cause growers to lose their lands if they are unable to pay back their debt. I expand on this idea in the Policy Implications section.

Most growers (all but two) with micro-mills are third- or fourth-generation cafetalero families, and their ancestors gave them the land where their main plantation sits. In some cases, they have bought new plots of land either to expand the plantation or to build the micro-mill. But these are smaller areas of a bigger property. The issue of land ownership is a relevant one to highlight in that the micro-mill owners' major investment is a response to the development of the mill itself.

The majority of the producers (all except two) have taken out loans from various financial organizations. Most turned to national banks (Banco Nacional and Banco de Costa Rica),⁶⁸ while others turned to the Costa Rican Development Bank System and micro-finance private entities. Public organizations such as the Costa Rican Coffee Institute (Icafe) and the Ministry of Agriculture and Livestock (MAG) have supported growers setting up their business with technical support and materials such as tools. Most of the economic investment, however, has come from loans.

Before turning to the micro-mill model, producers used to sell their coffee as cherries, prior to processing it. In this system, they did not add value to their yields and, therefore (as the next section shows), they had lower revenues. Nevertheless, they did not put their livelihoods at risk by mortgaging their land. Mortgages stopped many from selling their coffee as micro-lots, whether out of fear or because of their credit record.

Incurring debt to make the switch was almost mandatory, except for those from middle-class or upperclass backgrounds. This level of debt in a volatile market like the coffee market is a risk that many take with caution, but others are unable to take such a risk, even if they want to. One example would be producers with high-quality coffee who already have a debt associated with their land – this was the case for one of the participants. The initial investment needed to start micro-milling demonstrates that, even though farmers with small-holdings dominate this model, such growers must be in a stable, and somewhat privileged, position. This excludes many producers who have high-quality coffee, as their economic circumstances prevent them from entering this market.

Coffee Prices and Revenues

The majority of producers with micro-mills in the study used to sell their beans to their local cooperative (with a smaller number selling beans to a private multinational mill), before switching to processing their own coffee.⁶⁹ They claimed that the main reason to move to micro-mills was the possibility of receiving better prices because 'the fewer intermediaries, the more money goes to us', as one grower and micro-mill owner asserted. Not all growers, however, had the same conditions to achieve better revenues. The findings show that, despite the depiction of micro-lots as benefiting smallholder farmers, growers who produce less are disadvantaged because of the risks associated with the particularities of production and the milling costs.

Micro-mills most benefit a niche of growers whose production oscillates between 300 and 2,500 fanegas. Before growing their production to such scale, producers would develop their business in stages. They typically start with mills that can process 70 to 100 fanegas, then use their profit to invest in infrastructure to process 130 to 150 fanegas, and from then they can progress to over 300 fanegas, which is usually the point at which they have more stability and gains. Most micro-mills thus process between 70 and 300 fanegas.

The first two stages are crucial, and this is when the farmers are most vulnerable. Progressing to 300 fanegas is a process that can take from seven to ten years to accomplish, if the business is successful. Throughout these phases, growers will likely make 40% to 50% more profit than they would if they sold their beans as cherries. However, important issues need to be considered regarding debt, productivity, labour, and the role of cooperatives.





While it is true that small-scale farmers obtain more profits with micro-mills, during the first two stages the gains are rarely enjoyed by the household because in most cases this money is either used to pay debts (associated with the construction of the mill), or it is invested in the micro-mill project. Growers who launch a micro-mill begin with a considerable amount of debt, as explained in the previous section, but this is usually not considered as part of their expenses because they see it as temporary. In addition, as the goal is usually to grow to a point at which they can process all their coffee production (or more), then there is always a new addition in need of development, such as more infrastructure or machinery. In short, they spend a great deal of their revenue, leading the households to receive a very similar output to what they received with the former model.

The micro-mill system requires the use of different methods that lean more towards artisan processes and involve manual labour rather than machinery. However, it is not remunerated accordingly. The data demonstrates that family labour forms the foundation of micro-mill businesses. These are companies that are created to carry out family ventures, and if they do not have the support of the family, they will most probably fail and fall back into working as cooperatives or return to the private mill system.

Of the twenty micro-mill owners, only three hired workers. The rest were family businesses. Five of them involved some members of the household while the other twelve included the entire family unit, and the extended family in some cases. The division of labour depended on the size of the plantations and the micro-mill, the number of fanegas harvested, and the processes used at the micro-mill. Some could handle the workload without hiring people from outside the family, while for others family labour was not enough. In most cases, men own the plantations, and women complete chores in the micro-mills. The younger generation usually helps in both phases and focuses on accounts and other administrative tasks.

The workload increases exponentially for micro-mill-producing coffee compared with those only producing cherries. For instance, before switching to a micro-mill model, a producer will work on the plantation from dawn until 3 p.m. During harvest season, they will work a few hours longer and deliver the coffee cherries to the collection centre at around 5 p.m. before returning home. In the house, the producer's spouse will either do the domestic work or perform another type of job. Once a producer has a micro-mill, they will spend the same number of hours on the plantation. During the harvest season, after finishing in the fields, they move on to help in the micro-mill, where their spouse, children, and other family members have already been working all day. At this time of the year, work in the mill stops at approximately 10 p.m.

This means that during the harvest – which lasts for three months – growers will complete a shift of fourteen or sixteen hours a day. In addition, the other family members, especially the spouse and children, are rarely compensated for their labour. In this sense, these revenues are not necessarily proportional to the hours worked and the labour used.

The time and effort family members put into the mills is significant and, in most cases, it is not remunerated. There are several hidden costs in micro-mills, but labour seems to be the most common hidden cost. Producers fear that adding these costs to their business will make them less competitive. This issue is not new in coffee or even in agricultural practices more broadly.⁷⁰ However, it needs to be addressed when considering the economic stability of producer families specifically, while also considering new ways of adding value to traditional or existing crops.

There are also important considerations regarding productivity. First, it is common for growers to have production peaks every other year. Therefore, they use averages to calculate their expenses and revenues. The micro-mills' profitability depends on productivity, not on the size of the farm. For instance, the sample's productivity average is 30 fanegas per hectare. It is rare to find cases higher than 40 fanegas per hectare continuously, and so the target of 300 fanegas usually implies larger farms (over ten hectares).

Some experts from lcafe claimed that productivity was the main factor negatively influencing profits. The average productivity in the country is 20 fanegas per hectare.⁷¹ This is half of the 'ideal' minimum of 40 fanegas per hectare, which lcafe recommends. For producers, the 'dream' of 40 fanegas per hectare seems impossible to sustain in the longer term. National productivity has been decreasing since the year 2000.⁷² This is due to the ageing of coffee-growing lands and the effects of climate change, with drastic changes in periods of rain and drought.⁷³ Nevertheless, agronomists and technicians believe that an





optimum output from plantations is possible with good agricultural practices regardless of these factors, and they apportion most of the blame on growers' neglect. Whichever perspective you consider, good productivity requires investment (in labour, tools, fertilizers, plague control, etc), and this is something not all producers can afford, which leads to low productivity feeding the cycle of deficient profitability.

Another issue related to production, which influences profit, is the coffee varieties. Third-wave coffee highly values rare arabica varieties, such as Geisha or SL28. Experimenting with new varieties exposes small-scale producers to new risks. For instance, some varieties might not give them the expected results (e.g., low productivity) and these producers have limited room (fewer than three hectares) to keep their production afloat. Therefore, smallholder growers choose varieties with better productivity and resistance but more common and, in many cases, not the highest price. In contrast, medium-sized and economically stronger growers have the space and solvency to gamble with the unknown by choosing rare varieties.

Among the research participants, there were two medium-sized producers (more than ten hectares) who had SL28 lots, which were sold at \$1,250 per tonne (the highest price in the sample). This variety is susceptible to rust, coffee berry disease, and nematodes, and it therefore requires high levels of vigilance and pest control, both financially demanding practices.⁷⁴ When production is low or the plants need more resources, these producers have the funds to invest in them without jeopardizing the rest of the plantation. However, smaller-scale producers do not have the resources to experiment in the same way, which puts them in a less competitive position.

All small-scale (less than 300 fanegas) and many medium-scale growers (300 fanegas and more) still sell part of their production to cooperatives or private mills. What they trade is a percentage of their beans that does not fulfil the specialty market standards. This percentage will depend on the harvesting practices, good agricultural practices, that year's climate, etc. Once producers have more solvency, this percentage tends to decrease. What is important is that smallholder farmers are highly dependent on these sales to support their micro-mills, whereas for medium-sized mills, these sales are more of an economic complement.

Small-scale growers rely on cooperatives and private mills for two reasons. As explained before, for the first year, the growers process a portion of the yields before the business is ready to increase its volume. Thus, cooperatives and private mills represent a safe option for their positioning the rest of their beans, including those beans that did not meet the specialty market standards. Additionally, as members of cooperatives, they can ask for products (e.g. agrochemicals) and pay later in kind (with coffee cherries), thus allowing financially weak growers to maintain their plantation even when they do not have liquidity.

Changes Beyond Producers' Profits

The growth of micro-mills has led to significant shifts in the local communities. The most important change is the impact on cooperatives. The primary reason micro-mill owners have separated themselves from cooperatives is because of the low prices they offer. However, they claim that these organizations are essential for a well-functioning local coffee sector. The irony is that the growing numbers of micro-mills are jeopardizing local coffee cooperatives.

Cooperatives represent a security network. They offer financing plans for farmers to invest in their farms, including small-scale growers with micro-mills. This group of farmers also relies on the existence of cooperatives to operate, by selling a percentage of their yields to them.

Another important advantage is that cooperatives set minimum prices in their control areas. This means that no private mill would be able to offer lower prices than those of the cooperatives if they want to be competitive. Since cooperatives are made up of local producers, the prices set by them tend to be on the higher side. According to producers, this action assures a higher minimum price in the region.

Small cooperatives are now experiencing some negative consequences linked to the growth of micro-mills. Although single origin and micro-lot campaigns are associated with ideas of solidarity, cohesion, and direct trade – as suggested in the extensive personal narratives presented in packaging, coffee shops and





websites – this model is, in many cases, disintegrating cooperatives and turning growers toward an individualistic model of entrepreneurship.

This can be seen in the increase in participation in production from micro-mills. For instance, in the Los Santos region, back in 1998, of the total production, 29.4% belonged to cooperatives, whereas in 2022 this percentage has decreased to 1.6%. On the other hand, we can see a steady growth in micro-mills, going from processing 5.9% of the total production of Los Santos in 1998 to 81% in 2022.⁷⁵

A cooperative manager in Los Santos described the consequences for their volume in the following way:

• We are not against them [micro-mills] like other cooperatives are. Now, it does affect us. We can say that maybe we are 20,000 fanegas short. So, for us to reach our goal of 60,000 or 70,000 fanegas is becoming increasingly difficult.

For example, [at another cooperative nearby] I understand their mill has a capacity of over 100,000 fanegas, and I heard that they can barely reach 50,000 nowadays. So, what starts to happen is that the infrastructure is underused.

Micro-mills have also affected the overall coffee quality that cooperatives can offer to their buyers. This is especially the case for smaller cooperatives aiming for distinguished markets over volume. These types of cooperatives are found in the higher-altitude regions, and consequently this is where the micro-mills are most concentrated. Growers with micro-mills have specialty coffee, and when a significant number of these producers stop giving their best coffee to the cooperative, then the overall quality of the organization's coffee decreases.

The cooperatives most affected by micro-mills know this is a growing challenge, and they are looking for alternatives to keep this sector by their side. However, and even though micro-mills have been around for over 15 years, they view it as a new problem. None of the cooperatives from the sample have developed a clear plan to resolve this.

Coffee-producing communities have also been benefiting from micro-mills beyond economic terms. Micromills have brought a newfound enthusiasm to the coffee industry; they have become a source of pride for growers and brought the younger generations to the sector.

In terms of new generations' participation, it is important to note that most growers were born into a cafetalero family, learning to cultivate from their parents and grandparents, and trading coffee in cherries. Over time, fewer family members have carried on working the land, whereas a higher number have migrated to other regions or found employment in other sectors.

There is a particular lack of interest from the newer generations, and this appeared evident in the sample, except for in the cases of micro-mills. For instance, among the research participant families, those members from the second generation who were interested in keeping the land for coffee production were those with micro-mills. Of the remaining families, whose parents trade with a private mill or a cooperative, they revealed that when their parents passed away or retired, they would use the land for something else.

This is an issue that causes great concern among lcafe representatives, as these cases form a significant proportion of the population. In this context, the strengths of the micro-mill model lie with its community impact. The micro-mill model reinforces relationships and involves the new generations, igniting an interest that is stagnant with conventional coffee.

The younger generation's participation has allowed the formation of a 'family economy' in which coffee is combined with other sources of income. For instance, in many cases, the adult children work part-time in the mill or plantation while also having a full-time job elsewhere. This helps ease the burden of debts and other costs.

Growers have a long history of combining coffee production with other agricultural activities to improve their livelihood.⁷⁶ Currently, 55% of those in the sample who own micro-mills have an alternative source of income, but only a small percentage of these secondary economic entries relate to other farming endeavours. The introduction of micro-mills opened new opportunities not fully exploited in the previous





'production-only' model, such as tourism and coffee shops. The benefit to these is that they both depend on the focus of producer families: their micro-mills.

Activities linked to tourism mainly include tours to the plantation and the mills. In total, 25% of the sample involved in micro-mills offer excursions to visitors to complement coffee production. This option is attractive as it involves little investment, especially if the groups are organized by an external party. Nevertheless, coffee shops require more resources, and so, unsurprisingly, only 15% of the growers with micro-mills (the medium and large holdings) have taken that step. These are economically solvent growers with extensive experience. According to the research participants, cafes offer a good source of income and employment options for their extended family. The cafes are also used as a marketing tool to improve the sales of their non-export coffee that stays in the country.

Another important change is that micro-mills are moving away from a model where the most valued skills relate to production. Management skills play a crucial role in the success of micro-mills because they improve the business's administrative and bureaucratic aspects.

The milling process ends when the beans are sold to exporters or roasters. Therefore, as with any other step in the value chain, those involved in this stage need to have a deep understanding of the market and what is valued to better negotiate prices. Varieties and processes are valued differently depending on the buyers, and savvy farmers make production and post-harvest decisions based on these factors to position their beans better.

Of the cases studied, only 20% are run by people without a university degree or without specialized training. The remaining 80% are mostly people from the younger generation, who have influenced their parents' decision-making or who have taken control of the mill while their parents oversee the plantations. The complexity of this model means that producers with lower educational levels would most likely stick to the conventional cherry trade model.

Scholars of coffee such as Edward Fischer argue that within third-wave coffee, growers need social capital to translate the material qualities of their coffee into symbolic domains.⁷⁷ This wave has created new metrics of quality that focus on origin, exclusivity, and narratives. These metrics are guided by symbolic values created by roasters, baristas, and coffee cuppers, and they are constantly changing. For instance, coffee is currently advertised with a focus on the origin of the product but also on stories about the growers' lives. Similarly, the post-harvest processes that result in a unique and exclusive coffee are becoming more experimental and are sometimes returning to methods once considered 'old-fashioned' or artisan and thus unsuited to high-quality export products. The largest percentage of value comes from the symbolic realm. Producers have control and invest most of their efforts in productivity and quality. However, a significant number do not possess the skills needed to benefit from the added value created in the 'symbolic value worlds of the Third Wave consumers'.⁷⁸





Policy Implications

The ethnographic data reveals that producing raw materials will not enable growers to significantly improve their livelihoods, even with high-end products such as single-origin coffee and cacao. The micro-mills case study demonstrates that a step forwards into manufacturing allows growers to enjoy better returns; however, this does not occur without significant financial risk for smallholder farmers.

What both cases show is that most of the profit is being extracted from the producing countries. The gains from trading these goods are being unfairly distributed between the commodity producers and the manufacturing countries. This argument is far from new and has been central to scholarly analysis of the economic relations in which Latin America has been intertwined with the United States and Europe since the 1950s. The Prebisch-Singer thesis, along with the dependency framework, came about amid decolonialization, and it sought to 'creat[e] a democratic global order of truly sovereign states'.⁷⁹ These theorists postulated that the structure of the world economy would continue to be unequal between countries exporting mainly raw materials and others exporting mainly manufactured goods, unless an intervention is made.⁸⁰

The significance of these lines of thought to the cases today is that an export economy based on raw materials and the limited growth of an industrial sector continues to disadvantage primary producers, particularly smallholders. This is clear in the contrasting living standards between cacao and coffee growers, compared with its manufacturers. The most obvious disparities can be found in the chocolate value chain, where a US \$138 billion market, controlled by a few Western manufacturing companies, depend on small-scale growers who are 'predominantly and often, extremely poor'.⁸¹ This gap is less pronounced in the coffee chain although still very much present, even in the cases of specialty coffee where roasters and retailers make most of the profit, leaving smallholder farmers in a precarious condition.⁸²

This report suggests, given this background, that the best way for producing countries to secure more stable livelihoods is to gain better control within the value chains. The policy considerations made here are based on the premise that by developing a stronger national manufacturing industry, producing countries' gains would increase significantly.⁸³ By setting regulations within the country for commodity prices, these states would have better control over the value chain, allowing a more equal distribution of profits.

What I am suggesting here is that, even though policies that focus on the production level can help improve growers' competitivity and gains, such policies do not address the central issue preventing producers from obtaining a just price and treatment. In its current state, the chocolate and coffee value chains concentrate most of their value in the last steps, and that is where the problem lies. In the case of coffee, roasters are the dominant player in addition to retailers and traders (all situated in the importing countries), which leaves the exporting countries with the lowest percentage of the value. The situation for chocolate is more extreme with only 18.6% of the value allocated to the exporting countries.⁸⁴

The relevance of the cases studied in this report lies in that it shows how these trends (third-wave coffee





and fine chocolate) are the right place to instigate a move towards local manufacturing, as they are part of wider food movements towards decommodification, which rewards artisanal skills.⁸⁵ Also, within these markets there is a particular relevance in knowing where the product was made, comes from, or both. This interest in origin, both pertinent for quality and ethical reasons, is increasingly growing.⁸⁶

In the case of third-wave coffee, the focus has moved from the means of production to symbolic realms, with new metrics of quality created with a focus on terroir, exclusivity, and narratives. Third-wave coffee consumers are heavily invested in rare bean varieties, artisanal post-harvest processes, and guarantees of just practices for farming communities.⁸⁷ Similarly, the world of fine and single-origin chocolate is evaluated through aroma and taste, considerations that overlap with social justice (often in the form of direct trade) and sustainability.⁸⁸

These trends are guided by the moral compass of its consumers. The morality aspect has not always been present; awareness was raised here by exposing better knowledge of each part of the value chain. Maryann McCabe explained in her work that in both cases, there was a transformation from deterritorialization to reterritorialization, which means that consumers formerly did not associate the product with its place of origin but were reintroduced to this aspect by marketing campaigns and media outlets. For instance, consumer perceptions of chocolate, up until the twenty-first century, were associated with Europe (where most chocolatiers are located) and not with the tropical countries where cacao is grown. Media coverage, just after the new millennium began, of child exploitation in cacao plantations, and the consequent institutional response from governments and industry actors, brought attention to the entire chain, and to the conditions of those at the tail end. Similarly, after the detrimental effects of the collapse of the International Coffee Agreement in 1989 were exposed by activist groups and included in marketing campaigns, specialty coffee was transformed into a moral issue for consumers in the Global North. Farmers and the countries of origin then became the face of the coffee.⁸⁹

High-end food movements are taking a growing interest in symbolic realms, where quality is associated with provenance, direct trade, and social justice. These narratives are linking these products with images of equitable relationships that distance themselves from big corporations and faceless exploitative trade. However, the reality on the ground reveals something different; this mode of production is securing most of the value in the Global North rather than the Global South, and so the immense power and material accumulation remains captured by the last actors in these chains.

Why, given these contradictions, would these trends present a good opportunity to move towards local manufacturing for the international market? Because, from the point of view of consumers, enjoying high-quality coffee and chocolate is not only about rare varieties and post-harvest processes but also about encouraging just prices, environmental protection, and exercising political resistance. The niche world of third-wave and specialty coffee and high-end chocolate has proven responsive to a discourse about unfairness, and when it comes to consumption choices, there is a willingness to reject actors who represent injustices. Coffee and chocolate campaigns against exploitation, supported by consumers, have achieved great outcomes, such as the certification of Fair Trade coffee and chocolate, or organic cacao. Yet the findings of this report show that these outcomes are not enough for the future of the farming communities.⁹⁰

The moral and ethical drive of these consumers, coupled with the relevance of origin and artisan processes for quality products, makes the idea of roasting at origin or manufacturing chocolate at origin attractive to consumers of these niche markets. This could take many forms and does not have to involve the final product as will be explained in the policy recommendations given in the next sections.

For Cacao in Peru

There have been important efforts to activate the manufacturing sector in Peru. Over the last 20 years, local governments – sponsored by the international community – have taken action to create and modernize industrialization facilities. For instance, the creation of Agroindustrias Mayo S.A., a small company founded in 2002, which processes cocoa liquor, cocoa paste, and chocolate bars, and companies





from the sample such as Choco Warmis and Misky Cacao, which mainly supply chocolate for national consumption. But as it has been shown in this research, most of the attention has focused on improving production practices.⁹¹

As of 2021, Peru's cacao exports were mainly cacao beans, which represented 46.6% of sales. However, other subproducts a few steps along in the value chain were also being exported, such as cocoa butter (24.7%), chocolate (12.4%), cocoa powder (7.5%), cocoa paste (5.1%), residues (2.3%), and nibs (1.4% of the total). The production of these derivatives is a viable way of generating added value to cacao. For comparison, the Free on Board (FOB) prices in 2021 in Peru for conventional cacao beans were reported as being an average of \$3.81 (with organic at \$4.9) per kilo, with a maximum of \$4.43. Meanwhile, the chocolate price was an average of \$15.21, with \$44.11 per kilo as the highest price. Not only does chocolate command a significantly higher value, all cacao derivatives command better prices than beans, from cacao paste at 47% more to nibs at 119% more.⁹²

A higher percentage of value comes from manufacturing and not production, even when the production includes certifications or fine varieties. However, in Peru and particularly in San Martín at present, the potential of adding value to cacao by processing beans into byproducts or chocolate is lost because of poor infrastructure, lack of knowledge, and scarce financial resources. The stagnant figures for exports of byproducts reflects this, as since 2017 only cacao paste exports have grown (7% annually).⁹³ This means that the largest quantity of cacao beans produced is exported as raw material and in increasingly higher volumes, and furthermore, the only cacao derivative that shows evidence of growth is the one with less of a surplus difference to cacao beans.

In this context, the region lacks an environment favouring innovation in the main areas where the value chain operates. The recommendations, therefore, are mainly actions that seek to strengthen the local manufacturing industry, manufacturing products ranging from cocoa butter to chocolate for export and local consumption. However, other actions can also improve the ecosystem in which a national industry can flourish, and the potential for these are described above. But first of all, Choba Choba is presented as a case study in how local growers can become involved in the manufacturing of chocolate for export.

Incentivizing Peruvian Chocolate for Export: The Case of Choba Choba

Choba Choba is one example of how growers can make inroads into the manufacturing market. While acknowledging that the circumstances under which Choba Choba was founded are uncommon, and therefore not easily replicable, the case study still demonstrates that it is possible for growers (or other members of the exporting countries) to participate in further steps of the value chain, and such participation can bring benefits. In terms of policy implications, this case shows how other organizations can emulate some of the actions this group of farmers have undertaken.

Choba Choba (Kechwa for 'I help you, you help me') was founded in 2015. It is a cooperative made up of forty members; thirty-eight are Peruvian smallholder farmers and two are Swiss nationals. The cooperative focuses not only on producing cacao beans but also on producing chocolate, and it has its own brand, sold in European markets.

The cacao is transported as beans to Switzerland where a third party transforms the beans into chocolate. Choba Choba only buys the service of manufacturing to reduce its spending. It is in complete control of its cacao and byproducts throughout the value chain including the recipe, and most importantly, the brand. The chocolate is then sold in different stores in Europe but also online.

This model has allowed the cooperative to stand out from the others in the sample mainly because their smallholder members have more economic stability and control over decisions than the rest. This is visible in particular features that no other cooperative from the sample has. First, as mentioned in the previous section (see Table 2), they pay their growers 92.8% more than the average cooperative for bulk cacao beans, and 128% more for fine cacao beans. Because they have more control over prices and revenues, the growers are able to get better returns for their beans without compromising the company's financial health.





The cooperative facilitates producers becoming partners (they are always open to new members), and being a partner includes having the power to make decisions about prices, activities to be carried out, and the cooperative's vision. This can be seen in their deep understanding of the course that the beans take from the farm to the shelves as chocolate – something that no members of other cooperatives were able to describe – and their ideas about the future of the cooperative. Furthermore, as opposed to some of the other bigger cooperatives, the president of the organization is herself a small-scale producer.

As mentioned, Choba Choba has unique characteristics- how it was formed, members included two Swiss nationals with connections, etc – however some elements could be emulated to achieve the main positive outcomes. What is central from their model is that they control the value chain and are in possession of the brand and marketing. What Choba Choba sells is the final product: the chocolate.

A few features are key to the success of this model and needs attention when trying to emulate it. Firstly, while most cooperatives in the sample lack social capital, Choba Choba does not. They have a strong network of connections mainly built by the founding Swiss members who are European and worked in the chocolate trade business for years before establishing Choba Choba. This weak link could be strengthened if the government and development agencies focus more on trade instead of production. There is a need for more support when it comes to international coordination. The past foreign aid projects have demonstrated that relationships with buyers and the allocation of Peruvian cacao beans in international markets were quickly formed in places that did not exist before. These same strategies should be moved to manufactured products.

Choba Choba manufactures chocolate in Europe via a third party, facilitating the process of transporting the product to Europe. Unlike coffee, chocolate is a more delicate product and faces a number of logistical challenges in order to be exported into Europe. Mechanisms for a control environment for agricultural exports exists and have been put in place for decades as with fresh food produce (pineapples, bananas, avocados, etc) and other more delicate products more such as flowers. Therefore, exporting chocolate itself is feasible, currently 12% of cacao exports in Peru are chocolate.⁹⁴ However, the model of Choba Choba could be followed by other companies without compromising control over the value chain.

Another key factor is that Choba Choba benefitted from a significant initial capital but not from development and government agencies like the rest of the sample, but from private investors. Consequently, they were able to distribute these resources in the postharvest, manufacturing and marketing stages. As explained in the section 'Initial capital and motivation', almost all growers (including the ones that are now part of Choba Choba) and cooperatives received financial aid to start their cacao cultivation. This program was a multi-million dollar investment from foreign governments and, in a way, was a necessary step in the process of switching coca to cacao. However, now that the cacao production has been established, economic support for the manufacturing process would greatly increase the possibility of creating an exportable chocolate industry in Peru. This can be achieved through private and public alliances, like what happened in the early 2000s with cacao productions, or by public credit programs.

One more component to their success is the strong transparency of the entire process. An element that has helped achieve this is a deep knowledge of the process (every step of it, from the farm to the store) that all members have. Even if members only operate in the plantations, they have been educated about how the beans are transported, the prices, the names of the third parties, etc. Other cooperatives only encourage producers to understand what happens on their farms, even though they are co-owners of the whole company. This level of involvement is obtained by opening the doors of the company to everyone, through training and giving everybody a seat at the table. Finally, Choba Choba managed to position its bulk cacao in high-end markets which has proved very profitable. This is detailed in the next section.

Bulk Cacao for High-end Markets

The case of Choba Choba illustrates a good strategy for positioning bulk Peruvian chocolate in high-end markets. As the data analysis shows, most producers are not growing fine cacao but bulk beans instead. Even though these varieties are associated with confectionery chocolate, there are significant higher-end niches for bulk cacao for those consumers looking for healthier chocolates or a more pronounced cacao





taste but who are not aware of the differences between fine or bulk cacao. You can see this in the vast range of options present in UK supermarkets for dark single-origin chocolates made of 100% bulk cacao or from luxury chocolate brands that use a small percentage of fine cacao beans (such as Choba Choba).

Despite having limited flavour reach – compared with the fine varieties – experts claim that bulk cacao beans can be adequate for dark chocolate. This kind of chocolate is not intended for competition prizes (such as the International Chocolate Award), and its prices are not comparable with those that the fine cacao market could offer. However, selling their byproducts (including chocolate) within this context could provide an opportunity for better returns.⁹⁵

Peruvian bulk cacao is in a privileged position because of its origin. In European markets, CCN-51 grown in Peru has been described as 'the best cocoa'.⁹⁶ In addition, bulk cacao from Latin America is generally more highly valued than its African counterpart, partly because of buyers' desire to control traceability.⁹⁷ Therefore, other cooperatives in Peru – such as those in the sample – can emulate Choba Choba, as they have the potential to position their bulk cacao in differentiated export markets instead of selling it as a commodity (as they currently do).

Support the Integration of New Actors

One of the main weaknesses to Peru's chocolate sector is the low incorporation of new actors, such as chocolate makers, into the chain. Currently, it is estimated that the national Peruvian market includes around 150 to 200 artisanal chocolate brands.⁹⁸ Efforts to promote manufacturing and chocolate making have supported the formation and training of small organizations (this applies to Choco Warmis or Mishki Cacao in the study), albeit on a modest scale. Most of the programmes implemented by local governments and international organizations have focused on cacao production at the national level.

The manufacturing sector's growth is slow.⁹⁹ Many growers make chocolate or other derivatives but do not operate in the formal market, as was the case with Wauky Wasy from the sample. A lack of economic resources and technical guidance are the main reasons for small farmers to stay at the margins of the economy. Steps towards becoming part of the formal economy, such as the permiso sanitario,¹⁰⁰ require a significant investment that small growers do not have. The most expensive actions needed are infrastructural, such as building a toilet, sinks, and wastewater treatment facilities. It is important to consider that many of the members of these organizations – e.g. the members of Wauky Wasy – do not have these amenities in their own homes, or even in the community they live in. Therefore, they have to build these small factories from zero, which is a significant investment.

For the last two years, Wauky Wasy has been putting all its profits into a fund needed to formalize the business. The owners have other sources of income based on agricultural production – cacao and fish farming – and so they work for this small business for free. One owner, otherwise a housewife, dedicates most of her time to the enterprise but receives no salary. They claim that at the moment all the resources are needed to gain permiso sanitario and formalize the business, as this is the only way they can grow. Fairs and commercial spaces do not accept non-formalized businesses; therefore, they are unable to insert themselves into existing sales spaces or apply for funds. Despite the restrictions, demand is growing, as they keep selling cacao nibs, cacao jam, flour, and chocolate bars locally.

It is also important to emphasize that those manufacturing companies from the sample that received external funding were able to formalize their business, whereas those that did not obtain subsidies are still on the margins. This is important when considering the longer-term growth of chocolate production and consumption within Peru. Those seeking formalization must be assisted by providing technical guidance and reducing the administrative and economic gaps.

Strengthening Local Consumption

As this report has shown, most efforts implemented in the cacao sector have been made with export markets in mind as a goal. But the Peruvian consumer has purchasing power too, so why neglect this





market? The rapidly growing Peruvian market poses an opportunity to capture additional value, especially for small growers and rural communities currently operating on the margins.

Chocolate consumption in Peru has been rising over the past two decades, and Peru's per capita income is 250% higher than 20 years ago.¹⁰¹ Like the international market, there is an increasing desire in Peru to eat chocolate that tastes more strongly of cacao.¹⁰² However, the chocolate industry in the country is inadequate for this growing demand, and so the average consumer buys mostly international brands such as Nestlé (54.1% of all sales), which imports its chocolate and chocolate-based confectionery.¹⁰³

The flourishing middle class in Latin America, and in Peru in particular, provides a real opportunity to sell higher quality chocolate targeted at the middle class. The development of a domestic industry would help growers in several ways. First, local sales would diversify growers' markets, alleviating export dependence and improving their capacity to resist change. As with Costa Rican coffee, a number of producers complement their coffee exports with local sales. Domestic prices for national beans were not always as profitable, but they have maintained a steady growth since 2004.¹⁰⁴ This response to the solidification of a high-end coffee sector in the country has allowed producers to sell their coffee to fellow Costa Rican coffee to sustain their business, in contrast to the approach taken by foreign companies, which means there is an increasing market available for local growers.

In addition, a robust domestic market would heighten the incorporation of weaker producers. Exports offer limited opportunities for all farmers, especially because of logistical challenges and a lack of resources to fulfil export requirements.¹⁰⁶ For instance, high concentrations of cadmium found in Peruvian cacao have prevented exports to the European Union. On many occasions, this has left growers without a market in which to sell their beans.¹⁰⁷ The less strict national market provides a safety net, especially for small and poorer producers.

Only participating in the first parts of the value chain makes it difficult for growers to access more value. With a growing national chocolate consumption, particularly of high-quality chocolate, the Peruvian market is a missed opportunity not only for growers but also for national entrepreneurs. In addition, an effective manufacturing industry would facilitate good governance, wherein the different actors in the chain could interact and generate collective actions that directly benefit them, and thus become more competitive as a sector.¹⁰⁸

Other Cacao Derivatives

Besides the more traditional uses of cacao, such as those mentioned above (cacao paste, butter, nibs, amongst others), the creation of alternative products within the food and pharmaceutical markets is a practical option for developing the agroindustrial sector and generating added value.¹⁰⁹ Cacao possesses attractive additives beyond chocolate, which could be developed.

The mucilage is one of the most popular ones, as it can be used in soft drinks, as a sugar substitute, or in the fabrication of cosmetics. Several cosmetics and pharmaceuticals companies already use cacao byproducts – these include Meiji Seika Kaisha, The Nisshin OilliO Group and Nutraceutical. In addition, the acquisition of patents over the last 20 years shows the significant growth related to the innovation of cacao-derived products aimed at the food, pharmaceutical, and cosmetic markets.¹¹⁰

For Coffee in Costa Rica

Most coffee-consuming countries are not coffee producers. While these countries do import all kinds of coffee, they mostly import green coffee and roast it themselves. Consequently, green coffee is the largest proportion of all imports, and it accounts for 72%. The main importing bloc is the European Union, followed by the United States and Japan.¹¹¹

Domestic consumption for coffee exporters, however, has been on the rise since 1990, with an average





annual growth rate of 3%, which represents significant potential for expansion. This is the case with Costa Rica where coffee is not only an export item but also an essential part of the country's diet and culture. Of the producing countries, Costa Rica has the second-highest per capita consumption, only behind Brazil. To provide for this market, the country has built a robust roaster sector that uses up 15% of the national coffee production. Yet this is not enough for internal demand, which relies heavily on imported coffee (up to 50% by 2020).¹¹²

Because of this context, and unlike Peru's situation with chocolate and other cacao derivatives, Costa Rica already has a strong manufacturing coffee sector focused almost exclusively on national consumption, with 65 roasting companies.¹¹³ Yet, the country has not developed a growing interest for exporting roasted coffee. By the 2021–2022 harvest, 99.21% of coffee exports corresponded to green beans and only 0.76% to roasted coffee.

Exporting roasted coffee has the potential to bring more revenue into the country. The case of micro-mills has shown that any step further along the value chain leads to a higher percentage of revenue. The recommendations for coffee, therefore, propose that exporting countries should encourage and facilitate the movement towards manufacturing, from micro-mills to roasting. This report focuses on high-end, single-origin and specialty coffee, and not on bulk coffee, because this shift to manufacturing is more relevant for those markets. These policy implications are for those cases in the sample that can successfully apply this model.

The policy recommendation also suggests that rather than just small or individual enterprises participating, there should be a more collective effort to incorporate cooperatives into these dynamics. In addition, given the data collected and the particularities (benefits and challenges) of the micro-mills, the recommendations also include actions on how to protect smallholder farmers from the uncertainties of venturing up the value chain.

Why Roast at Origin?

Roasting coffee in coffee-producing countries for exports breaks with industry norms that have existed for over two centuries. These narratives of fear and a sense of impossibility have even created a belief that this trade is not legal. One micro-mill owner and producer from the sample stated that 'exporting roasted coffee is not legal under Costa Rican law'. However, this is not true.

While exporting roasted coffee does have important challenges, there are a series of benefits, beyond financial returns, that most research participants – including lcafe officials – seem to ignore. These unique and advantageous characteristics will now be presented through two cases of roasters from the sample: Chica Bean in Guatemala and El Gusto in Costa Rica.

In terms of quality, roasting at origin guarantees a level of freshness that no other roasters can provide. This model can establish a 'plant-to-cup' process lasting only one month. Currently, consumers in the US can drink coffee from Guatemala within a week of it being roasted. Considering the importance of quality in third-wave coffee, this aspect should be used in marketing campaigns to differentiate it from European or US roasters.

Another advantage of roasting at origin is that it has the potential to truly adhere to the promise of direct trade – to be part of the discourse of third-wave and single-origin narratives – thus benefiting growers and exporting countries. By roasting in producing countries, the value chain shortens, negating the need for many intermediaries and bringing growers and consumers closer together. For example, both roasters from the sample have a logistics model that ships directly from their roastery to their consumers, without requiring repackaging or redistribution. This model resembles an e-commerce business, but with a base in the coffee-producing country.

Chica Bean's and El Gusto's logistical route may not fit larger-scale plans, and so the next recommendation suggests that cooperatives oversee this side of the operation. Nevertheless, this will still offer more direct trade, that is, with fewer intermediaries, and that will guarantee that a higher percentage of the value will





stay in the exporting countries.

In terms of taxes, no exporting country in Latin America applies taxes on roasted coffee exports except for Ecuador (2% on both green and roasted). However, thanks to various trade agreements, imported countries have reduced tariffs and have therefore allowed exporting countries to benefit from 'relatively free trade'.¹¹⁴ For instance, Costa Rica's most important buyer, the US (with 48.4% of coffee exports) has no tariff on imports of all forms of coffee.¹¹⁵

Cooperatives As Roasters and Exporters

As explained in the section 'Changes Beyond Producers' Profits', cooperatives are an essential part of coffee communities because they give producers various facilities that reinforce their stability. However, they are being weakened by different factors, including the introduction of micro-mills. For this reason, reinforcing cooperatives and rethinking their model and the services they provide seems relevant.

Given that the main policy recommendation is to roast coffee at origin, I recommend that cooperatives should participate in this model by offering roasting and exporting services. The operation of roasting coffee requires important investment and logistical efforts, with which cooperatives have experience already. Most cooperatives already have their own roasteries for sales within the national market. In addition, over the last ten years, cooperatives have been building their own coffee brands. In the cases of CoopeTarrazú and Coopedota, they have provided for the local market and have now expanded to all parts of the country. By acknowledging that exporting roasted coffee needs another approach to marketing, cooperatives can receive training and feedback from other roasters such as El Gusto or from government entities specializing in exports, such as Procomer.

Cooperatives can also become involved as exporters for third parties, such as smaller roasters or for micro-mill producers exporting green beans. This benefits growers because it is usually a step in which they are not included. However, if this is carried out by cooperatives (made of growers), then more involvement, profit, and control will remain within the chain. CoopeTarrazú has experimented with exporting through its sister company Sustainable Trading Company (STC). This enterprise exports specialty coffee in particular; in fact, three of the research participants with micro-mills export their beans with STC.

The coffee cooperatives from the study not only have knowledge of selling and exporting high amounts of coffee and seeking new markets; they also have vast amounts of experience managing different commercial activities. Currently, they have a division that owns and manages different businesses, including supermarkets, petrol stations, coffee shops, and hardware stores. During the first decades of their existence, these cooperatives depended totally on coffee revenue. But today, in many cases, coffee no longer represents the main revenue. For instance, at Coopepalmares, coffee corresponds to only 35% of the gains.

Cooperatives have demonstrated that they can adapt to market changes to survive. However, for the benefit of coffee growers, commercial coffee activities should be lucrative and attractive for cooperatives. Finding new ways of involving cooperatives in the sector, such as roasting and exporting, is one way of doing this.

Micro-mills to Focus on the Artisanal Stages

As explained on page 20, one of the difficulties for growers who process their own beans is the financial burden involved in building and maintaining the mill infrastructure. To achieve export quality, coffee beans need to go through a series of processes that involve two main stages of milling – wet and dry. The first (wet) stage involves the separation of the beans from the flesh. Each type of brewing process (e.g. honey or natural brewing process) takes the pulp off at different stages and requires distinct methods in between. The dry stage involves parchment removal, grading, and sorting. As opposed to the wet mill, in which artisanal methods are valued, the last steps of the dry mill are more complicated and industrialized, and





they require expensive machinery. This is the infrastructure that, in some cases, has caused unnecessary financial damage.

In this context, I advise that producers start a micro-mill focused on the wet mill and specialized in one process. This recommendation has two parts. The first is to build a hybrid micro-mill, for which a smaller investment is needed, which only does the wet stages. For the dry mill, the beans are taken to larger mills with big machinery where these services are offered. The findings show that the stages where growers' knowledge and unique methods are valued is the stage with the wet mill. The buyers expect the dry milling to be done in an industrialized way. Therefore, a hybrid system does not adversely affect quality.

Some of the producers from the sample have found that by building hybrid mills, their economic risk has decreased, and so it has been an effective alternative. However, dry milling services by bigger mills have been offered under the table because of Icafe's legislation, which does not allow mills to sell manufacturing services. But in 2020 the law changed, permitting these actions.¹¹⁶ The passing of this bill has opened the door for these services to be regulated, thus protecting smaller farmers who are the main users. During the research period, none of the players involved, be it smallholder growers with hybrid mills, or bigger growers selling dry milling services, knew about the change in legislation. Therefore, there is a need for Icafe to first establish recommended prices for the dry milling services. In addition, this alternative should be promoted through a dissemination campaign, informing both parties of the implications and avoiding the provision of informal manufacturing services.

The value of this model is that it opens opportunities for more producers to process their coffee without large investments. Not only could more producers have micro-mills – they could also do so at a lower risk. It also helps bigger family enterprises (such as three of the sample participants) to diversify their business. Currently, dry milling has been provided to friends and family only. It is not advertised or considered a source of revenue because of the previous law that prevented it from operating formally.

In the same vein of focusing on the artisan nature of micro-milling, producers should focus on one process instead of carrying out multiple ones. Two of the most successful micro-mills from the sample have chosen this route and indicated it to be efficient in various ways. It is economically more convenient, requiring less investment as only one infrastructure type is needed. In addition, it is more labour efficient, as the division is less complicated and only one process needs to be learned by those involved. Last of all, specializing in one method enables the producer to acquire deeper knowledge, thus allowing producers or even regions of the country to become world leaders in a specific process, which can then become a marketing advantage.







Lessons and Reflections

The worlds of fine chocolate and specialty and third wave coffee are strikingly similar; however, coffee has an undeniably longer history and therefore a more sophisticated range of products, and a more complex development and organization. The cases of Costa Rica and Peru are great examples of this contrast. From the national consumption to roasting, to the farmers' level of specialization, the Costa Rican coffee sector presents a useful precedent for what the Peruvian chocolate industry could look like in a few years. But is this model the end goal for Peruvian cacao producers?

Specialty coffee became a promise to position producers in just market settings- assuring direct trade and higher prices- and single origin the next step, protecting the cultural and ecological uniqueness of their environment.¹¹⁷ But despite the positive outcomes these trends have produced, there has not been a 'radical re-distribution of value along the chain'.¹¹⁸ Single origin markets demand labour-intensive and experimental practices and rewards rare varieties which are, sometimes, less productive. In this context, even though farmers with micro-mills are in better conditions than those that trade cherries, they are still vulnerable, especially small growers (which are most of both Costa Rican and Peruvian producers of these crops). The economic burden of upgrading to single origin falls on the producers, excluding thousands of small growers who cannot afford it, and putting at risk those who venture into this unstable market. By individualising the post-harvest processes, cooperatives are weakened, affecting the whole coffee ecosystem.

This report suggests that the best way to improve the livelihoods of farmers, and other actors of the farming communities like cooperatives, is for producing countries to participate in more stages of the value chain, with the overall aim of exporting manufactured goods. This alternative entails producing countries not only to increase their presence across the value chain, but specifically to participate in the ones that currently accumulate the most value and therefore gain better access to control over prices. The findings show that third wave coffee and fine chocolate are ideal markets to develop these policies due to the emphasis on provenance, direct trade, and consumer interest in social justice and growers' well-being.

Currently, exporting countries have little control over exports. In the case of coffee, power over prices from producing countries was severely diminished with the end of the International Coffee Agreement in 1989, and the subsequent power contraction of International Coffee Organization. These events led to the termination of other bodies (coffee board, institutes, government agencies) that used to regulate export sales, leaving producing countries with weakened bargaining power, and benefiting industry actors from importing countries. The power and control over prices from cacao producing countries is weaker than coffee (evidenced by high poverty rates among growers), despite the seven International Cocoa Agreements since 1973 aiming at protecting producing countries. This has negatively impacted household incomes leading to a significant number of producers living in extreme poverty and child labour within plantations.¹¹⁹

Policies and programmes seeking to reduce exploitation have been implemented for decades by exporting





countries' governments, civil society, and to a lesser extent by traders and manufacturers. Several important efforts at a national level of producing countries have focused on minimum price for exports, such as Colombia and Costa Rica, through enforceable coffee contracts of minimum export prices, or more recent joint policies like the 2019 Living Income Differential (LID) introduced by the Ivory Coast and Ghana governments requiring buyers to pay an additional amount per ton of cocoa on top of the floor price.¹²⁰ There is optimism about whether the LID could bring substantial improvements to cacao farmers, but the long-term results remain unknown as it is too early to draw judgement.

Other important attempts have raised awareness of the unjust conditions growers are subjected to but have contested results in terms of effective actions. For instance, the Cocoa Protocol signed in 2001 by all major chocolate companies with support from the World Cocoa Foundation and the Chocolate Manufacturers Association with the mission to end the worst forms of child labour, or the 7th International Cocoa Agreement in 2010 where some producing and consuming countries committed to improve farmers' livelihoods and environmental sustainability of the cocoa chain.¹²¹ The success of both programmes has been questioned by multiple outlets such as the Payson Centre of International Development that found in 2011 that the cocoa industry 'had not fully completed any of the six articles' of the Cocoa Protocol.¹²² Similarly with coffee, the 2017 World Coffee Producers' Forum, initiated by Colombian producers, called for a sustainable minimum price, and 'an investigation of price and cost trends'.¹²³ There is a seed of hope that this Forum represents a foundation for the reorganization of producing countries aimed at providing better prices for producers, but so far it has not come to fruition.¹²⁴

These policies and programmes provided limited outreach and accountability, with many scholars concluding that it has failed to substantially improve farmers' realities for both cacao and coffee.¹²⁵ The findings of this study draw on these previous studies, by explaining how in the context of high-end coffee and cacao, growers are still in a disadvantaged position and have very little bargaining power. On the other hand, this report also exposes cases of Peruvian chocolate brands and Central American roasters that demonstrate that manufacturing is allowing more control over the value chain and delivering higher prices for producers.

Despite the recognition by many that a degree of industrialization of exporting goods is a key economic policy goal to generate added value for Latin American countries,¹²⁶ Peruvian and Central American agroindustries have historically been dominated by the extraction of raw material.¹²⁷ However, there are successful stories of Latin American agricultural manufactured goods for export that fine chocolate and third wave coffee could see as examples to follow, such as the case of tequila in Mexico, rum in Guatemala and more significantly, wine in Chile. All three examples are cases of world renowned products that have gained value because of (and not despite of) being manufactured at origin. Zacapa rum from Guatemala uses the name's Nahuatl origin as a sign of authenticity and differentiation. However, because of historic links to imperialism– and not practicality, freshness or quality– coffee and chocolate have been associated with European and North American manufacturing.

The purpose of this report has been to highlight these contradictions and tensions in the value chain of fine chocolate and speciality coffee, both at the discursive level and that of the growers' realities. Equally, the aim has been to make connections within these markets in order to expose alternatives that could improve the lives of those in producing countries.





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