

Honduran Coffee Cooperatives, US Communities and the Hope of a Better Future Michael Maxey

According to the Honduran National Coffee Institute (IHCAFE), 95,912 coffee farmers are projected to produce 6.1 million 60-kg bags of coffee in 2016/2017 making the country the largest coffee exporter in Central America, the third largest in Latin America, and seventh in the world.

Four cooperatives – AHPROCAFE, ANACAFEH, CCCH-La Central and UNIOCOOP – have played a critical role in expanding Honduran coffee production areas, increasing overall productivity and improving quality. These efforts have helped create a sector that has average over \$1 billion in annual exports over the last five years.

More than 1 million Hondurans – approximately 25 percent of the Economically Active Population in the country -- earn an important part of their livelihoods from growing, harvesting, processing, transporting and selling coffee. Wages paid to coffee harvesters for seasonal work amounted to \$310,000,000 in 2016/2017 which provided critical income in the high poverty western departments.

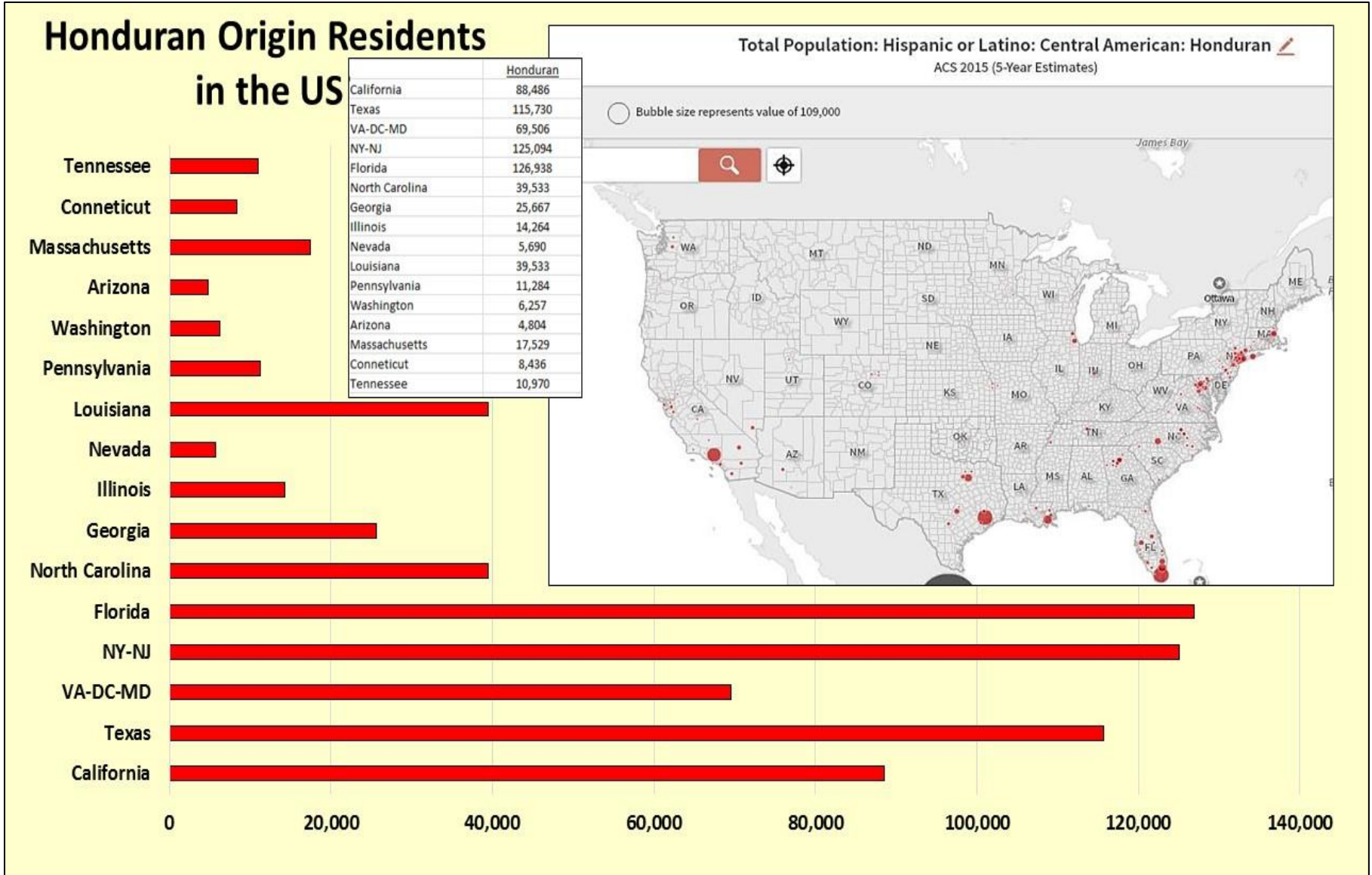
The global coffee market is in a downward trend and this could have a significant impact on coffee farmers who are already working with very thin profit margins. A March 2017 report by the International Coffee Organization indicated that Arabica coffee producing countries have increased their exports and stocks in consuming countries are at a 14 year high with over 6.45 million bags in the US.

In addition to a downward market trend, Honduras is also facing a potential rebound in the coffee leaf fungus, La Roya, which in 2012 resulted in up to 60 percent yield reductions in some areas. The International Coffee Organization observed that Honduras with exports totaling 2.31 million bags (a 36 percent increase of the 2015/2016 season) may be unable to sustain this growth in exports due to the reported emergence of a new outbreak of leaf rust in Honduras.

With one million Hondurans already living in the US, the opportunity to out migrate when economic conditions worsen is a real possibility. There is also the impact of internal migration from hard hit rural areas to urban centers in Honduras which can later result in continue well established migration patterns to the US. Promoting equitable economic development is one of the most important ways to mitigate out migration.

US cities already home to large numbers of Honduran origin residents have a vested interest in helping promote economic development in rural Honduras. The right combination of deterrents and local incentives can help slow the out migration trends. What is needed is a partnership between Honduras's coffee producing areas and high density Honduran origin cities in the US.

This partnership could be based on specialty grade coffee with cooperatives playing a lead role in reaching out to political and civil society leaders in these US communities to create high value marketing channels aimed at preventing further out migration. US private and public sector leaders can help spread the word of the importance of buying coffee classified with the Geographic Indication "Honduras Western Coffee (HWC)." A pilot effort could be with Fairfax County, Virginia.

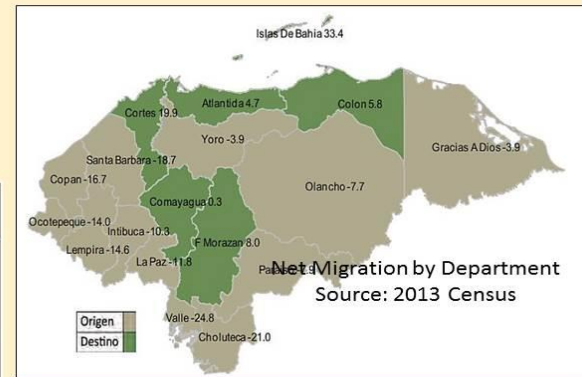


Honduran Coffee Sector Problems & Internal Migration

The coffee rust crisis of 2012/2013 created widespread Unemployment in the Honduran coffee sector which coincided with ongoing internal migration from coffee production areas to major urban areas in Francisco Morazan and Cortes.

Effect of Coffee Leaf Rust for Crop year 2012/13

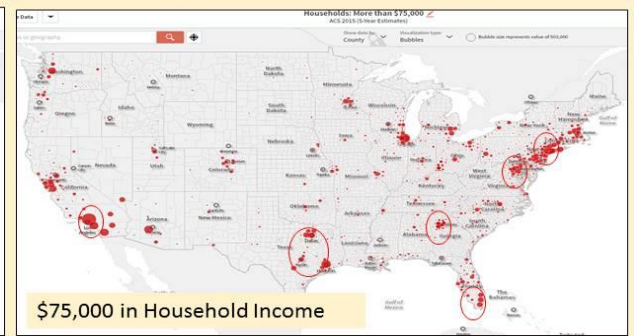
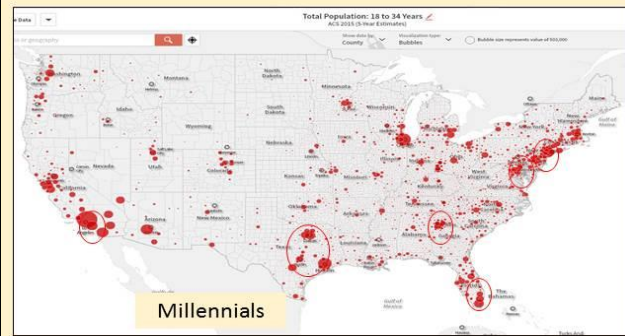
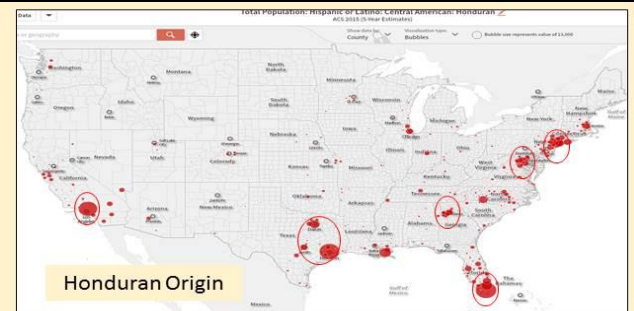
	Total area (hectares)	Area affected (hectares)	Total workforce	Job losses	Total losses	
					Value (US\$ million)	Volume (60-kg bags)
Costa Rica	94 000	60 000	110 000	14 000	14.0	73 600
Dominican Republic	131 250	105 000	250 000	105 500	15.0	142 600
El Salvador	152 187	112 293	95 000	13 444	74.2	322 102
Guatemala	276 000	193 200	500 000	75 000	101.0	554 394
Honduras	280 000	70 000	1 000 000	100 000	230.0	1 303 333
Jamaica	3 013	841	12 182	3 640	5.2	3 758
Nicaragua	125 874	46 853	158 000	32 000	60.0	306 667
Panama	20 097	4 850	42 000	30 000		
Total	1 082 421	593 037	2 167 182	373 584	499.4	2 706 454



Analisis de Situacion de Poblacion Honduras
UNAH Migration Observatory See
<https://mdd.unah.edu.hn/publicaciones/estudio-analisis-de-situacion-de-poblacion-honduras/>

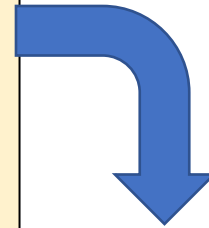
Report on the outbreak of coffee leaf rust in Central America and Action Plan to combat the pest. See <http://www.ico.org/documents/cy2012-13/ed-2157e-report-clr.pdf>

Millennials, Hondurans & Los Ricos



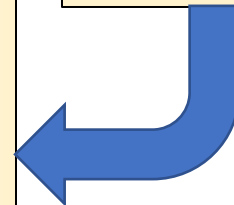
Marketing Strategies

- Focus on areas with large numbers of Honduran origin residents.
- Highlight the importance of coffee to the economic livelihoods of Hondurans.
- Promote “coffee for a cause” marketing campaign using specialty grade Honduran coffee -- Honduran Western Coffee (HWC).
- Market to “Third Wave” coffee retailers in small lots (30 lb, 60 lb and 100 lb).
- Promote “small batch roasting” in partnership with Small Business Association Loan Program help Third Wave coffee retailers buy coffee roasters.

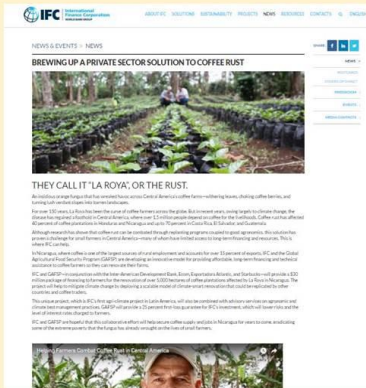


Public Private Partnerships as a Way Forward

- Find partners interested in making a one to one match to support coffee farmers between 4,000 to 5000 foot elevation in production, processing and marketing of specialty coffee.
- Find a coffee company that is interested in operating in the US to distribute Honduran Western Coffee (HCW) to Third Wave coffee retailers. (Honducafe?)
- Work with Small Business Administration and local governments to facilitate an expansion of micro-roasters in Third Wave coffee retailers with a focus on marketing Honduran Western Coffee (HCW).



The IFC Example - \$30 million private-public partnership for Nicaragua Coffee Sector.



IFC and GAFSP—in conjunction with the Inter-American Development Bank, Ecom, Exportadora Atlantica, and Starbucks—will provide a \$30 million package of financing to farmers for the renovation of over 5,000 hectares of coffee plantations affected by La Roya in Nicaragua. The project will help to mitigate climate change by deploying a scalable model of climate-smart renovation that could be replicated by other countries and coffee traders.

This unique project, which is IFC’s first agri-climate project in Latin America, will also be combined with advisory services on agronomic and climate best management practices. GAFSP will provide a 25 percent first-loss guarantee for IFC’s investment, which will lower risks and the level of interest rates charged to farmers.

References

“Arabica availability on the market remains high ... Indonesia, Honduras, India, Peru and Uganda, which make up almost a quarter of global exports, significantly increased their shipments in the first months of coffee year 2016/2-17. “The highest increase was observed in Honduras with exports totaling 2.31 million bags, up by 35.6% compared to 1.71 million in 2015/16. However, it remains to be seen if this growth is sustainable as reports emerge of a new outbreak of leaf rust in Honduras. Certified stocks on the New York and London futures markets have increased further by 2.4% (from 1.49 million bags in February to 1.53 million bags in March) and 1.9% (from 2.80 million bags in February to 2.85 million bags in March) respectively. At the same time, inventories in consuming countries continued to build up. For example, in February coffee stocks in the United States reached 6.45 million bags, the highest level since May 2003.” Source: International Coffee Organization (ICO) Coffee Market Report, March 2017. See <http://www.ico.org/documents/cy2016-17/cmr-0317-e.pdf> - last visited on April 16, 2017.

Honduras has grouped production into six different regions based on microclimates, elevation and overall growing conditions: Copan, Montecillos, Agalta, Opalaca, Comayagua and El Paraisa. In 2005, the first Geographic Denomination was approved for “Marcala Coffee.” A Geographic Indication has been declared for “Honduras Western Coffee (HWC).” Four of the largest coffee producers’ federations and associations are part of IHVAFE: (1) AHPROCAFE (Honduran Coffee Producers Association); (2) ANACAFEH (National Association of Coffee Producers of Honduras); (3) CCCH- La Central (Federation of Honduran Coffee Cooperatives); and (4) UNIOCOOP (Federation of Honduran Coffee Cooperatives).

Honduran National Institute for Coffee (IHCAFE) Bulletin – “Información Estadística 5 de Abril 2017” See <http://www.ihcafe.hn/images/Boletin%2005-04-17.pdf> Last accessed on April 16, 2017.

Forecast for Honduran production in the 2016/2017 season is 6.1 million 60-kg bags which represents a 4% increase over previous year production. Exports are projected to be 5.7 million bags with an estimated 700,000 bags leaving Honduras as contraband to Guatemala and Nicaragua due to higher prices in external markets and no sales documents (or “check off” fees paid) to IHCAFE.¹ Low international prices continue to be a problem for the coffee sector. Honduran coffee is primarily produced in relatively high elevations (61% of national production is between 3,900 to 5,200 feet above sea level). The total specialty coffee export volume is projected to be 4.6 million bags with over 90 percent of “High Growth” and “Strictly High Growth” production going into the specialty market. More than one million workers received \$310 million in wages during the coffee season with total export value projected to be \$893 million. Honduras is the largest coffee exporter in Central America, the 3rd largest in Latin America, and the 7th largest in the world. Source: USDA Global Agricultural Information Network (GAIN) Honduras Coffee 2015/2016 Report. May 13, 2016. HO1602 Ana Gomez

¹ Out of each hundredweight of coffee exported, IHCAFE collects \$13.25 “check off” amount for the following (1) \$9 for coffee trust fund, (2) \$1 for coffee loans made in 2000, 2001 & 2002, and (3) \$3.25 with \$0.50 going to pay off a \$20 million loan in 2002 and the balance (\$2.75) going to IHCAFE operations and the National Coffee Fund (which is used to build infrastructure – roads and bridges – in coffee areas).

See

https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual_Tegucigalpa_Honduras_4-26-2016.pdf – last accessed on April 15, 2017.

“Honduran coffee production in marketing year (MY) 2015/16 (Oct 2015-Sept 2016) is forecast at 5.9 million 60-kilogram bags. Honduras was affected by the coffee leaf rust in MY 2012/2013; however, the impact was lessened due to producers using rust resistant coffee varieties. There has also been renovation of trees and new coffee areas, which provides a volume increase of the coffee to be harvested in the forecasted year. Sixty-one percent of Honduran coffee production is grown in the mountains between 3,900 and 5,200 feet above sea level, 23 percent in areas from 2,900 to 3,900 feet above sea level, and 16 percent in areas 1,600 to 2,900 feet above sea level. Coffee is grown in 15 of the 18 Honduran departments and in 210 out of the 298 municipalities. During the previous harvest more than 97,000 producers registered their production with the Honduran Coffee Institute (IHCAFE). However, the historical coffee registry had up to 113,000 producers in MY 2011/2012. Out of all the producers, more than 92,000 are smallholder producers, which collectively grow 62 percent of all coffee produced in Honduras. The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people are involved in coffee-related activities such as harvesting, fertilizer application, shade control, cleaning, drying, commercialization, transportation and other services such as banks. Roughly US\$263 million were distributed over a four month basis to 1.2 million people who directly participated in the previous coffee harvests.”

USDA Global Agricultural Information Network (GAIN) Honduras Coffee 2014/2015 Report.

June 15, 2015. HO1502 Ana Gomez See

https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual_Tegucigalpa_Honduras_4-20-2015.pdf – last visited on April 16, 2017.

Roast Magazine – Rick Brown, May 19, 2016 See <http://dailycoffeenews.com/2016/05/19/ncas-2016-national-coffee-drinking-trends-report-is-big-on-the-m-word/>

“While total U.S. coffee consumption is slightly down, many new and emerging market opportunities exist in specialty coffee in segments, such as office coffee, individualized retail beverages, e-commerce and subscriptions, brewing devices and gadgetry, and brand storytelling. These are some of the takeaways from the 67th National Coffee Drinking Trends report, released this week by the National Coffee Association. In its introduction to this year’s report, the NCA focuses a lot on the ‘M’ word — millennials — the group of younger buyers considered by many market researchers as forever changing the way coffee shall be viewed, purchased and consumed. The NCA shares some hard numbers reflecting how younger buyers have shifted consumption patterns over the past eight years: Daily consumption of espresso-based beverages has nearly tripled since 2008, according to the latest data from the 2016 NCDT. Between 2008 and 2016, past-day consumption of gourmet coffee beverages soared from 13% to 36% among 18-24-year-olds, and from 19% to 41% for those age 25-39. For espresso-based beverages alone, the jumps become 9% to 22% for the 18-24 age group and 8% to 29% for those aged 25-39. Interestingly, for the first time in the report’s 67-year history, the consumption of coffee brewed through automatic drip brewers among consumers who drank coffee within the past day dipped down to half. While this supports an approximately 2 percent decline in total consumption, it

also supports NCDT data suggesting that consumers are continuing to increase consumption in retail coffee shops, offices, shared work-spaces and other away-from-home environs.

“Coffee used to be brewed primarily at-home (and still is, among older demographics),” the NCA wrote in its introduction. “It was a private ritual. And no frills – a cup of coffee was a cup of coffee.”

“However, more Millennials are drinking coffee out-of-home, turning coffee consumption into a public expression of individuality. In the age of Instagram, every detail needs to be on-brand – nothing is *really* private.” The 2016 NCDT study also echoes the mountainous and ever-growing pile of research into the head-and-heart spaces of younger buyers, suggesting they want a “personal relationship” with their coffee.

“This 2016 NCDT data shows that the factors driving coffee consumption are fundamentally changing. The next generation of consumers has a more personal relationship to the products and brands they support. The things they use reflect their larger worldview,” the NCA wrote. “‘Value’ is not always a question of price per ounce, nor is it a static proposition. Today, value can mean many things, depending upon customer demographics. For some consumers, ‘value’ may be more about a brand’s philosophy, authenticity, and commitment than anything measured in dollars and sense.”

Roast Magazine, Nick Brown, March 27, 2017 See

<http://dailycoffeenews.com/2017/03/27/2017-us-coffee-drinking-trends-include-more-gourmet-more-youth/>

“U.S. coffee consumer trends this year include increased overall consumption, and increased consumption among all age demographics in “gourmet” coffee, non-espreso drinks such as cold brew, and brews from single-cup machines, according to the National Coffee Association’s 2017 National Coffee Drinking Trends (NCDT) report. Released this past weekend at the NCA Convention in Austin, Texas, the annual report organizes data from surveys and interviews with a U.S. population representative a sample of about 3,000 people. According to findings release by the NCA, the dominant trend in 2017 is toward increased consumption among coffee drinkers of all ages, despite data in recent years showing that total consumption had been plateauing or slightly slowing even as segments such as “gourmet” up-ticked.

In 2017, the percentage of consumers who reported having a coffee drink within the past day jumped five points from last year to 62 percent, marking a reversal of declines since the 2013 report. “More of us are drinking coffee, and younger consumers appear to be leading the charge,” Bill Murray, NCA president and CEO, said in an announcement of the report’s release in conjunction with the convention. “A steadily growing taste for gourmet varieties is also driving a wider trend toward specialty beverages.”

The NCA this year has also decided to launch a second report based upon the data largely focused on the younger demographics often referred to as millennials, or post-millennials (a.k.a. Generation Z). The latter group, defined by the NCA as composed of consumers age 13-18 showed strong consumption increases throughout the survey, particularly in the “gourmet” coffee drink category. While it’s not totally clear what constitutes “gourmet” in this context, NCDTs of

years past have loosely defined gourmet as any sort of non-instant arabica or arabica blend coffee product, which might include certain K-cups, premium arabica roasts from local roasters, bagged grocery coffee, or filter coffee and espresso drinks served in independent and chain coffee shops. This year, the NCA added a new drinks category, “non-espresso-based beverages,” including frozen blended, cold brew and nitrogen-infused. “The NCA Generational Report: Coffee Through the Ages — will be available soon, the NCA says.”

“Following are just a few of the major takeaways from the 2017 NCDT:

- Frequency of Daily Coffee Consumption - This refers to consumers who reported having consumed a coffee beverage within the past day: (1) Ages 13-18: 37 percent, up 6 percent from last year; (2) Ages 18-24: 50 percent, up 2 percent from last year; (3) Ages 25-39: 63 percent, up 3 percent from last year; (4) Ages 40-59: 64 percent, up 11 percent from last year; and (5) Ages 60+: 68 percent, up 4 percent from last year.
- Daily ‘Gourmet’ Consumption - Daily consumption of ‘gourmet’ coffee beverages generally saw much higher rates of increase in 2017: (1) Ages 13-18: 29 percent; (2) Ages 18-24: 39 percent, up 3 percent from last year; (3) Ages 25-39: 50 percent, up 9 percent from last year; (4) Ages 40-59: 39 percent, up 15 percent from last year; (5) and Ages 60+: 34 percent, up 10 percent from last year.
- Other ‘Gourmet’ Consumption - 2017 showed the largest one-year increase in past-day espresso beverage consumption in history, from 18 to 24 percent. More than half of all cups of coffee consumed in the past day were “gourmet” — a record-high 59 percent, compared to 46 percent in 2012. Consumers reporting non-espresso coffee beverage consumption in the past week included: frozen blended (14 percent); cold brew (11 percent); and nitrogen-infused (3 percent).”

From Brew Boomers to the Gourmet Generation: National Coffee Drinking Trends 2017 See <https://nationalcoffeeblog.org/2017/03/28/from-basic-boomers-to-specialty-snowflakes-national-coffee-drinking-trends-2017> March 28, 2017 - National Coffee Association, By Kyra Auffermann, NCA

“Today’s “typical” cup of coffee is anything but – it may not even be a cup. Innovation is fueling growth across the gourmet coffee segment (aka specialty coffee), according to the new NCA National Coffee Drinking Trends Report 2017, released at the NCA 2017 Annual Convention in Austin on March 25, presented by Michael Edwards, Dig Insights. The latest data shows a market shift toward high-quality, premium beverages, with younger demographics driving this change. So what does this mean for the coffee industry? Here are the top consumption trends, based on the latest market data. Going Gourmet - “Coffee” used to be associated with a traditional percolated brew, consumed at home at the breakfast table. Now the perception of coffee has expanded to include an afternoon nitro cold brew while working at a cafe, or a bottle from a vending machine in the train station after work. For the first time in the NCDT’s 67-year history, more than half (59%) of coffee cups consumed daily are now classified as gourmet, versus 46% in 2012. Traditional drip brewers are still the most common method of preparation – but barely. In fact, 2017 is the first year where fewer than half of daily coffee

consumers drank coffee prepared with a drip brewer on a past-day basis (46%). According to the report, “This represents a gradual but fundamental shift in the American coffee landscape.” To reflect the emerging popularity of premium beverages among mainstream consumers, we added the new category “Non-Espresso Based Beverages” to the 2017 NCDT. This includes beverages such as cold brew, nitro, or frozen blended coffee, and is generally congruous with the “specialty coffee” designation. These drinks predominantly engage consumers under 35 years, suggesting potential long-term growth opportunities for the industry. Younger generations may be drinking less coffee than older adults, but they’re drinking better coffee. And they’re definitely drinking it differently.”

“According to the NCDT data, we’re drinking more coffee prepared out-of-home – reaching a high of 46% in 2017. Where people drink their coffee is strongly correlated to age. People 65 years and older are the most likely to have coffee exclusively at-home. Meanwhile, coffee drinkers under 35 years are nearly one-third more likely to drink coffee from a café or donut shop. (During his presentation, Michael said that one of the primary reasons younger demographics gave for drinking coffee at home was “something to do in front of the computer.” Obviously.) Drinking more coffee out-of-home may contribute to younger demographics’ interest in new flavors and preparation methods, because of increased exposure to new beverages and trends. It’s important to note that this shift in place is not only a question of preference, but also a reflection of our increasingly mobile (and WiFi-dependent) lifestyles: Ultimately, people drink coffee where and when works for them. With so many options available, sometimes “better” means easier. Meet your consumer where they are. This may be a strategic opportunity for brands to introduce new beverages and brewing methods into consumers’ homes. Reinforce positive rituals, introduce innovation, and emphasize quality. Remember that consumers don’t consider coffee a utilitarian necessity to endure, but rather a small luxury to be savored – even celebrated (and Instagrammed).”