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Do Specialty Coffees Increase Farm Gate Prices? An Analysis of the Marketing Behaviour of Coffee Farmers in Costa Rica

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Abstract

Since the abolition of the International Coffee Agreement in 1989 and the subsequent increase in supply, world market coffee prices became more volatile and since 1998 have sharply declined. In an attempt to overcome the crisis of low coffee prices the Costa Rican government launched a programme to promote quality enhancing practices in the coffee sector. To achieve high quality coffee beans, the measures must be implemented at all levels of the product chain. The present study aims to find out whether improved coffee quality translates into higher farm gate prices for the farmer and which other marketing strategies and household specific characteristics allow farmers to obtain better prices for their coffee.

Results from a regression model show that farmers who market their coffee under the label of specialty coffee obtain a significantly higher average price for their produce than farmers who sell their coffee as conventional coffee. Even controlling for these differences in coffee quality, the marketing channel matters. Farmers who are members of cooperatives get higher prices for their coffee than farmers who sell to private mills. Furthermore, access to information is an important asset to make improved marketing decisions. The analysis shows that if the selection of the buyer is based on geographic proximity, average prices are clearly lower. On the other hand, if the decision is based on trust and good experience with the mill, prices received tend to be higher. Concerning price information, the source is critical. Some sources seem to be more reliable than others and information obtained from reliable sources translates into higher coffee prices received by the farmer. The results of the study suggest that the policy of fostering quality standards in coffee production is beneficial at the farmer level in terms of higher average prices received. Further policy recommendations derived by the study refer to the support of coffee related organisations and access to reliable information.

Keywords: Coffee prices, Costa Rica, marketing channels, marketing strategies, quality standards