



## **Brown Gold**

Welcome to the annual meeting of Association of Young Investors. You are a group of private investors from the United States. You have one million dollars to invest in **one** coffee production company. There are three companies that have applied to receive funding from your association. Your job is to review each company and decide which will be the best long-term investment for your group. You will present your recommendation to your Board of Directors.

### **Steps to follow in your decision making process:**

- ❖ Silently, read over all the information. As you read mark the pros and cons that you think are most important for each coffee company.
- ❖ As a group, discuss the companies and complete the “Thinking Organizer”.
- ❖ Decide which categories in the Thinking Organizer are most important to your group.
- ❖ Each person should offer his or her opinion, and the group should be prepared to agree on one company.
- ❖ Decide in which company you will invest the one million dollars. Be prepared to explain why your group decided upon that particular company and why you eliminated the others. Your argument should include facts and examples from the proposals.

# Overview and Background

## History of Coffee

Coffee beans were first grown in Ethiopia. The growing of coffee beans then spread through Arabia. The Dutch started large-scale importation of coffee in Europe.

## Understanding Types of Coffee

Coffee is a small tree or shrub and has traditionally been grown between forest trees in the shade. Coffee farmers historically raised coffee beans beneath the intact forest canopy or in rustic “coffee gardens” in which a wide variety of trees grew. The trees provided shade for the coffee plants.

Coffee is really a fruit. Coffee branches form white blossoms that last for a little more than a day. These blossoms turn into coffee “cherries” that are red and round. It takes three to five years for the plants to begin producing and that is possible only with the proper combination of climate, rain, sunshine, and shade. There are two main species of the coffee plant, Arabica and Robusta. Arabica is the higher quality bean that produces what most people consider to be better quality coffee. Robusta is used as an inexpensive substitute to Arabica.

### Terms

**Arabica:** A species of coffee originating in Ethiopia and widely cultivated for its high-quality, commercially valuable seeds

**Robusta:** The coffee plant that is commercially grown but whose beans are of lesser quality than Arabica beans

**Shade-grown:** Coffee grown under a natural canopy of trees

**Sun-grown:** Coffee grown in the sun with a higher yield than shade grown

**Organic:** Agriculture without the use of chemicals and pesticides

## Coffee and Global Trade

Today, over twelve billion pounds of coffee is consumed around the globe annually. The United States is the world’s leading coffee importer and each year the average American consumes about nine pounds of coffee. The coffee industry employs an estimated 25 million people worldwide with more than 70 nations exporting coffee. Coffee is the world’s second most valuable product behind petroleum.

Today we are in the midst of a global coffee crisis. Currently the supply of coffee is more than the demand. The surplus is causing unemployment in all areas of coffee production, and increased threats to the land and wildlife where coffee is grown.

## The Coffee Crisis

Most economists agree the coffee crisis is due to rapid expansion of coffee production worldwide, especially in Vietnam and Indonesia. Since the 1990s, coffee production around the world has been rising faster than consumption. As a result, wholesale coffee prices are at their lowest levels in a century. Coffee farmers all over the world have lost their jobs as farmland is used for growing illegal drugs. Over 600,000 jobs have been lost in Latin America alone.

# **Kaffe Coffee Company**

## **Kaffe, Ethiopia**

Sun Grown Arabica Coffee

### **Growing Conditions Used by this Company**

Coffee originated in this region in 9<sup>th</sup> century. The Kaffe Coffee Company is a fifth generation coffee farm that grows only Arabica Coffee. All the plants have been cultivated over the years and are of excellent quality. All plants are fully grown and are producing beans.

### **Labor Conditions**

Pay is typically two to three dollars a day, and Kaffe Coffee laborers work in very poor conditions. Many rights provided by labor laws, such as minimum wage, safety requirements, and freedom to form a union, are not enforced.

### **Financial Status of Company**

This is a large coffee farm and they export their own harvests, which are sold at prices set by the New York Coffee Exchange. They sell their coffee beans to large roasters who sell it to four large multinational corporations, -Nestle, Kraft, Procter & Gamble, and Sara Lee. Coffee from this farm can be found in most US cafes and supermarkets. Even though the price of coffee has declined world wide, profits for the Kaffe Coffee Company have been very high. The company has several foreign investors that are satisfied with high returns. The company guarantees solid high returns.

Some of the coffee farmers are cutting down the coffee plants and planting khat (a narcotic plant that is illegal in the US, Canada and most of EU) due to the low price of coffee and the comparatively higher price they can get for khat. Investing in this company will prevent the farmers from planting khat.

Coffee price per pound:	\$3.00
Number of Employees:	5,000
Yearly production:	195 tons

# **Pokel'a Farms Kona, Hawaii**

## **Sun Grown Arabica Coffee**

### **Growing Conditions Used by this Company**

Coffee was first planted in the Hawaiian Islands in the early 1800's. Kona Coffee is a gourmet specialty coffee grown only in the Kona coffee-growing region. The region is limited to the slopes of two large volcanoes on the Big Island of Hawaii. The volcanic soil, abundant sunshine and afternoon rainfall make the Kona area one of the premier coffee growing regions in the world. Hawaii is the only place in the United States where coffee is grown.

Volcanic smog, or "VOG" is a weather condition connected to the volcanic activity in the Kona coffee region. Vog is formed when sulfur dioxide and other pollutants emitted by the volcano mix with the air. The vog makes for cooler afternoons in the Kona Coffee belt and provides natural shading for the Kona coffee trees.

Pokel'a Farms is a small independently owned coffee farm consisting of five acres. All five acres are planted in Arabica sun grown coffee and native plants or animals are found on the farm. The farm carefully controls every step of the production process, from tending the coffee plant, to harvesting and roasting. No pesticides or herbicides are used, but they do not have organic certification. Erosion, earthquakes, fire, and wild boars are issues that limit production.

### **Labor Conditions**

Workers at the farm receive the current minimum wage for Hawaii, \$7.25 per hour.

### **Financial Status of Company**

Pokel'a Farms sets the price for their coffee based on demand and has shown medium profits over the last two years. If the owner does not get new investors he will sell his land for condominium development.

Coffee Price per pound:	\$30.00
Number of Employees:	200
Yearly production:	1 ton

# **Shady Business Cooperative Chanchamayo Valley, Peru**

Shade-grown Robusta Coffee

Certifications: Fair Trade, Organic, Shade-Grown, Bird-Friendly, Eco-Ok

## **Growing Conditions Used by this Company**

The coffee for this cooperative is grown on small farms, called rustic shade farms. Today, rustic shade farms use only the natural vegetation to shade the coffee plants providing a variety of wildlife habitats. The clear cutting methods used by “sun” grown coffee farmer have led many consumers to look for “shade grown” coffee. This group uses coffee growing techniques that have been around for over a thousand years.

Shady Business Cooperative has been certified by Rainforest Alliance and the Smithsonian Migratory Bird Center. The farms are very bird friendly and have over 150 species of birds. The company is certified organic and all the planting, weeding and harvesting is done by hand.

## **Labor Conditions**

Life for the villages' 83 families has improved significantly in just four short years. Previously they only grew what they ate. The formation of the cooperative has provided much needed loans to the families and they hope to sell their coffee on the global market.

## **Financial Status of Company**

The cost of producing the coffee is very high due to labor intensity and cost of the certifications. The yield is very low because it takes the coffee plants a long time to mature. The cooperative has not generated a profit as of 2006, but the plants are healthy and if Shady Business can acquire funds needed they know they could create profitable and sustainable coffee farms.

Coffee Price per pound:	\$12.00
Number of Employees:	83 families
Yearly production:	Varies

## Brown Gold: Global Marketplace THINKING ORGANIZER

As you contemplate the pros and cons of investing in each company, complete the following organizer. Decide which company your group will recommend to the Board of Directors.

What company would your group recommend if environmental sustainability was your priority? (*“Environmental sustainability” means to provide the best outcome for the environment now and in the future.*) Why?

What company would your group recommend if assisting the US economy was your priority? Why?

What company would your group recommend if economic gain was your priority? Why?

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**After completing your organizer, discuss what is most important to your group and decide in which company you are going to invest.**

Company\_\_\_\_\_

Why did your group choose this company?