Rooted in Coffee
Deregulation, Economic Crisis and Restructuring Power in the Brazilian Coffee Sector: How Small-Scale Coffee Producers Responded to the Coffee Crisis in Sul de Minas.

by

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ABSTRACT

ROOTED IN COFFEE
DEREGULATION, ECONOMIC CRISIS AND RESTRUCTURING POWER IN THE BRAZILIAN COFFEE SECTOR: HOW SMALL-SCALE COFFEE PRODUCERS RESPONDED TO THE COFFEE CRISIS IN SUL DE MINAS

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After 1989, the elimination of the Brazilian Coffee Institute coincided with a global movement of coffee market deregulation, resulting in a long ‘coffee crisis’ that harmed the livelihoods of thousands of small-scale coffee producers in Brazil. In response, the Brazilian coffee landscape was restructured and large private cooperatives emerged as the primary institutions in the Sul de Minas region. However, after the initial retraction of state intervention, extremely low coffee prices contributed to the reestablishment of the Brazilian government in the coffee sector, but in a different fashion, as state institutions were redesigned to support actors and private institutions, not recreate the state as an intermediary in the market. Despite further commitment to coffee production, producers experienced greater economic vulnerability and suffered the brunt of the low coffee prices, but a strong culture of coffee production played an important role in shaping the choices of producers.
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**Abbreviations**

ABIC  Associação Brasileira de Indústria de Café  
APA  Área de Proteção Ambiental (Protected Environmental Area)  
APPC  Associação dos Países Produtores de Café (Association of Coffee Producing Countries)  
BDMG  Banco de Desenvolvimento de Minas Gerais (Development Bank of Minas Gerais)  
CDPC  Conselho Deliberativo de Política do Café (Deliberative Council on the Politics of Coffee)  
CMDRS  Conselho Municipal de Desenvolvimento Rural Sustentável  
CNC  Conselho Nacional do Café  
CONAB  Companhia Nacional de Abastecimento (National Supply Company)  
CONTAG  Confederação Nacional dos Trabalhadores na Agricultura  
COOXUPÉ  Cooperativa Regional de Cafeicultores de Guaxupé  
EMATER  Empresa de Assistência Técnica e Extensão Rural (Enterprise for Technical Assistance and Rural Extension)  
EMBRAPA  Empresa Brasileira de Pesquisa Agropecuária (Brazilian Enterprise for Agricultural Research)  
FAEMG  Federação da Agricultura de Minas Gerais (Agricultural Federation of Minas Gerais)  
EPAMIG  Empresa de Pesquisa Agropecuária de Minas Gerais  
FUNCAFÉ  O Fundo de Defesa da Economia Cafeteira (Fund for the Defence of the Coffee Economy)  
IBC  Instituto Brasileiro do Café (Brazilian Coffee Institute)  
ICA  International Coffee Agreement  
ICO  International Coffee Organization  
MDG  Millennium Development Goals  
MST  Movimento dos Trabalhadores Sem Terra (Movement of Workers Without Land)  
PNP&D  Programa Nacional de Pesquisa e Desenvolvimento do Café (National Program of Research and Development for Coffee)  
PRONAF  O Programa Nacional de Fortalecimento da Agricultura Familiar (National Program to Strengthen Family Agriculture)  
PRRC  Plano de Renovação e Revigoramento dos Cafezais (Plan for Renovation and Invigoration of Coffee)  
SAC  Agro-Industrial System of Coffee  
SCAA  Specialty Coffee Association of America  
SENAR  Serviço Nacional de Aprendizagem Rural (National Service of Rural Learning)  
UN  United Nations  
USDA  United States Department of Agriculture


**Introduction**

After 1989, the elimination of the Brazilian Coffee Institute (IBC) coincided with a global movement of coffee market liberalization, resulting in a long ‘coffee crisis’ that harmed the livelihoods of thousands of small-scale coffee producers in Brazil. In response, the Brazilian coffee landscape reorganized the power relationships among institutions but producers remained marginalized and suffered the brunt of the low coffee prices that typified the coffee crisis. In the region of Sul de Minas, large cooperatives, supported by the state, replaced the role of the IBC as the primary coffee institution on the ground. After the initial retraction of state intervention after 1990, extremely low coffee prices contributed to the reestablishment of Brazilian government intervention in the coffee sector, but in a different fashion, as government institutions were redesigned to support actors and institutions in the coffee sector, not recreate the state as an intermediary in the market. Despite the institutional changes and lengthy period of low prices, coffee producers in Sul de Minas remained rooted in coffee, as the culture of coffee production played an important role in shaping the choices of producers.

The destruction of the International Coffee Agreement (ICA) coincided with a global movement to remove multinational commodity trade agreements, ushering in a period of ‘open-market’ trade philosophy and facilitating a realignment of national institutions. As a part of this movement, the international coffee industry experienced a prolonged period of ‘coffee crisis’ that drove down the international price of coffee, the income of most coffee producers, and called attention to the impact of globalization on their livelihoods. This paper will analyze the response of the coffee landscape in the Sul de Minas region to the liberalization and deregulation of the coffee market, including the reduction and expansion of the government, the growth of private cooperatives into fundamental institutions in the region, and the reaction of small-scale
Coffee producers to changing institutions and frequently low coffee incomes. An analysis of these three groups, over a defined period of time, will contribute to a better understanding of the response of the Brazilian coffee industry in the Sul de Minas region to the international movements linked with commodity trade globalization and market liberalization, and help to conceptualize the impact of the coffee crisis in Brazil.

Coffee has remained a popular academic topic of research because coffee requires the interaction of many different power relationships along the commodity chain, and is one of the most traded commodities in modern history. Coffee enables various methods of macro-analysis because it is typically produced in the ‘global south’ and exported to the ‘global north’, drawing economic and class lines between producers and consumers in an international forum. Furthermore, coffee is not considered to be a staple commodity but a luxury good, and does not provide any physical nourishment to the consumer. It is, however, grown and harvested to be traded and perceived as a cash crop to this end, reinforcing the fundamental importance of the commodity chain and the links that bind it. Coffee also cross-cuts class lines as it is typically cultivated in tropical nations, often by small-scale producers with low incomes and various systems of production, and with differing relationships toward coffee production. Within the commodity chain, clear differences have been forged between producers, transporters, bulk buyers, roasters, vendors and consumers. The different stages of the coffee chain create opportunities to better understand the commodity chain as a whole, and the role of power between different groups and the way in which they change over time. The coffee trade has

been linking international economies for hundreds of years, but the intensity and volume of the trade has continued to increase throughout the twentieth-century.

The termination of the International Coffee Agreement (ICA) in 1989 was followed by oscillations in the market price for Arabica coffee, which resulted in a broad decrease in the international price. The price of all varieties of coffee had sunk to abysmally low prices by 2003, as Brazilian naturals sold for an average of USD $30.90 per sac (60kg per sac), exemplifying the broad period typically coined the ‘coffee crisis’. The low prices and international connections along the coffee chain have drawn much popular and academic attention, but most of the focus has remained on new methods of production and trade that concentrate on alternatives to conventional coffee; these include scientific organic production, the fair-trade network, and various other specialty high-quality coffee trades. Most of the work has attempted to assess the benefits, weaknesses, or viability of different methods of producer cultivation, organization, trade and final consumption outside of the ‘conventional’ coffee market.

Academic focus has centered on areas of high-quality coffee or high levels of poverty, including Southern Mexico, Central America, and select regions of alternative coffee production in South America. Brazil has been largely understudied by recent academic literature, despite remaining the global leader in coffee production, coffee exports, and the second largest market for coffee consumption. Presumably, the breadth of the coffee landscape in Brazil makes it

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particularly difficult to generalize about, considering twelve states produce coffee and both Arabica and Robusta are cultivated; to discuss the Brazilian coffee sector as a whole ignores the great diversity within it and the people who cultivate it.

The geographic focus of this paper is the Sul de Minas region in the state of Minas Gerais, Brazil. The altitude in the Sul de Minas ranges from 800-1250 meters, with a landscape of rolling hills and valleys and a geography in which coffee typically thrives. The climate maintains a long dry season, which is perfect for the ‘natural’ processing method of harvesting coffee often used in Brazil. Sul de Minas is considered one of the best areas for coffee production and, for a relatively large planting area, the quality of its coffee is considered to be some of the best in Brazil. These features are helpful to this study because they provide a region with consistent geographic features and a strong history of coffee cultivation. Sul de Minas largely contains small farms, but it also has farms of various sizes, including exceptionally large farms called fazendas (typically over 100 hectares). The region is best described as an archipelago of small agricultural towns and cities. In these regions there is a clear distinction between rural and city lines, but most people dwelling in the cities have direct links to the rural areas, and therefore the area is best described as being largely rural. Due to these factors, the

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5 Juse Luis dos Santos Rufino, Victor de Souza Silveira and Adelmo Cardoso Ribeiro Junior, Caracterização da Cafeicultura de Montanha de Minas Gerais, Cadeias Produtivas: Café (Belo Horizonte: FAEMG-INAES), 10, 22.
6 The term “Brazilian natural” identifies the type of coffee typically cultivated in the Sul de Minas area, whereby the coffee is left on the tree until most of the moisture has been absorbed by the beans. The coffee beans are also harvested and dried inside the cherry before the case is removed and the beans are dried further, an entirely different system compared to the “washed” Arabica method, typical of other regions of Latin America. Not all regions of Brazil harvest in this manner, but the Sul de Minas has a very long dry season with little moisture in the mornings, allowing the berries to remain on the tree without the threat of rot.
8 Watson and Achinelli, “Context and Contingency: The Coffee Crisis,” 230; Interview with a large-scale farm owner. The history of these large farms could be traced back to the initial grant of the land form the Portuguese crown.
area has a strong culture of coffee, and, as one small producer stated: “without coffee there is no Sul de Minas.”

This analysis will focus on three major groups or institutions, with an emphasis on how they responded to the destruction of the coffee institutions and the role the coffee crisis played in reshaping the Brazilian coffee landscape, with a specific focus on the small-scale coffee producers. The first chapter will examine the government institutions that were transformed, maintained, or created after the dissolution of the IBC. The second chapter focuses on the private institutions that emerged in the Sul do Minas, with particular focus on two large conventional coffee cooperatives, Cooxupé and Cooparaiso, and their positions in the Sul de Minas coffee landscape. The third chapter will rely on non-structured interviews with various coffee farmers in the Sul de Minas region, illustrating their perspective concerning the local coffee industry after 1989, and their relationship with the state and the cooperative Cooparaiso. The last chapter will conclude this paper and draw connections between the three groups of study to identify the movement of power within the Sul de Minas coffee region, and the shape and consequences of market liberalization.

After the demise of the IBC, it became impossible to study Brazilian coffee policy through one primary institution. Various intermediary institutions emerged, each needing to be analyzed individually and through linkages between the state, private institutions, and coffee producers. As Talbot contends, “a change in the structure of the world economy must mean a change in the structures of one or more of its constituent chains.”

Despite the singular nation-state focus of this paper, the Brazilian coffee landscape is overly large and too varied to study as a whole. Within this analysis, the commodity chain theory will be relied on to emphasise the

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9 Homero Lemos, interview by author, São Sebastião do Paraíso, Minas Gerais, Brazil, April 17, 2011.
changes in the relationships between the various groups, or actors, in the Brazilian coffee landscape, and how their relationship to the coffee industry has changed. Commodity chain theory helps to reinforce the study of structural change at individual points to gain a better understanding of the overall transformations within the coffee industry. Typically, a commodity chain approach would seek connections between production and consumption, and while this study will focus on the ‘beginning’ of the chain, it will engage with the relationships between small-scale producers, private sector cooperatives and the state. A focused approach on the Brazilian aspects of the commodity chain will acknowledge the influence of other actions along the broader links in the chain, particularly market price, which has influenced all relationships along the chain. However, an in-depth discussion of a larger portion of the chain is beyond the scope of this paper.

There has been recent academic literature supporting a ‘value chain analysis’, which aims to explain how value is added as products pass through various stages and are transformed from commodities into consumable goods. However, this paper seeks to focus on institutions and individuals, and the manner in which the structure of the landscape was reshaped, resetting the context of where power rested. Furthermore, global value chain analysis depresses the cultural elements that contribute to shaping individual and institutional choices. By focusing on producers, cooperatives and state institutions within Brazil, it becomes clear that culture, tradition and political influence were important factors whose ‘value’ is difficult to assess.

11 Banco de Desenvolvimento de Minas Gerais, Minas Gerais do Século XXI, Volume IV, Transformando o Desenvolvimento da Agropecuária I, (Belo Horizonte: 2002), p15. In the Brazilian discourse the term most popularly used is “agro-industrial coffee chain” to describe the relationships between the actors that go beyond the agricultural chain to include institutions, financial transaction and larger power relationships.
The closing of the coffee institutions was not a solely national event, but one linked with the international movement influenced by neo-liberal policy, applying tools of deregulation and market liberalization. Focusing solely on the changes in Brazil, and looking at the period in a broad perspective, the Brazilian coffee sector underwent a version of a ‘double-movement’, as defined by Polanyi. A double-movement is an occurrence wherein the market expands without regulation, affording no structural protection to the livelihoods of people but checked by a countermovement, typically driven by civil society in order to control the continuous market expansion and subsequent consequences. This movement can be broadly traced through the period of this study as the coffee-regulating institutions were terminated with the aim of liberalizing the market, only to create a coffee price crisis followed by a counter-movement towards institutional control. However, it is crucial to recognize that the re-expansion of government control did not replicate past relationships, but rather created new relationships with different power associations and methods of intervention.

Institutional Governance of the Coffee Industry

In order to better understand the context of the period after 1989, the institutions that governed the Brazilian coffee sector must briefly be explained. In 1960, Coffee was still the dominant crop in Brazil and accounted for over 50 percent of its exports, but international prices continued to fluctuate. By 1962, many coffee producing and coffee importing countries agreed to implement the ICA, which became the largest and most successful international program to

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regulate coffee prices.\textsuperscript{15} In a basic sense, the agreement was an effort to share the world market and maintain price controls, preventing tremendous crashes or spikes in price.\textsuperscript{16} Essentially, the agreement set a target price and particular export quotas were given to each producing country, although some countries were excluded, an oversight which became an increasing problem over time. If a rapid rise in price occurred, then quotas were ignored and nations were able to sell their stocks above the agreed price. The International Coffee Organization (ICO) was established to monitor an index price for coffee, so that when prices rose or fell the quotas could be adjusted accordingly.\textsuperscript{17} The initial agreements showed success, as the international coffee prices fluctuated only modestly from 1962 to 1973, and coffee-producing countries benefited from the relative price stability.\textsuperscript{18}

Domestically, the coffee policy following the Second World War marks an important transformation within the Brazilian coffee landscape. Under President Vargas, Brazil emerged from the war politically centralized with growing institutions connected to the state. Bates states that “technocrats and administrators took the place of party bosses; and rather than political elites competing for support from private interests, private interests instead competed for favour from bureaucratic elites.”\textsuperscript{19} In 1952 President Vargas created the IBC, a federal institution to regulate and administer Brazil’s national coffee policy.\textsuperscript{20} The IBC was given power over a number of functions, including coffee purchasing, storage, and exports. Additionally, the IBC gained administrative duties including domestic ‘crop plans’, in which reports were formulated on the


\textsuperscript{18} Talbot, \textit{Grounds for Agreement}, 64.

\textsuperscript{19} Robert H Bates, \textit{Open-Economy Politics}, 95.

stock of trees and ecological threats.\textsuperscript{21} In this regard, the changes in the IBC were in line with political changes in the federal government as the IBC became a national institution, connected to the federal government and increasingly involved in many aspects of Brazilian coffee production.

The structural empowerment of the IBC transformed the coffee landscape. Under the IBC Brazilian coffee became increasingly hierarchical, but the pockets of power remained difficult to identify. Unlike earlier valorization programs (interventions to raise the value of coffee in Brazil), there was a new separation between coffee farmers and coffee politics. The IBC managed relationships between the coffee farmers and the international political policy.\textsuperscript{22} The ‘crop plans’ were particularly significant because they established systems for regulated credit, storage and transportation to the ports. Furthermore, the IBC became the price-setter for coffee within Brazil, separating the international market and the domestic market. Bates claims that the IBC emerged as the middle-man between coffee producers and the market; while farmers had the choice whether or not to grow coffee, if they chose to then the IBC was their likely conduit to the market.\textsuperscript{23} These developments illustrate the centralization of coffee within the increasingly autocratic government, but also the emergence of a formal structure for coffee growers to engage with.

Increased centralization of Brazilian coffee under the IBC decreased the connection between farmers and the international market. While the international price was still significant, the relationship between the farmers and the IBC became increasingly important for coffee producers because they sold their coffee to the IBC, which established a guaranteed minimum

\begin{itemize}
\item Robert H Bates, \textit{Open-Economy Politics}, 95.
\item Edmar Lisboa Bacha, “Política Brasileira do Café, Uma Avaliação Centenária,” in \textit{150 Anos de Café} (New York: Lis Gráfica e Editoria, 1992), 70.
\item Robert H Bates, \textit{Open-Economy Politics}, 95.
\end{itemize}
purchase price for Santos-4 grade of coffee.\textsuperscript{24} This was met with increased taxation by the IBC, but also offered support for coffee producers when prices were low. Estimates suggest that before these structural changes were implemented farmers received 90 percent of the export price, but by 1960 that percentage had been reduced to roughly 50 percent, although there was greater market stability.\textsuperscript{25} Important to this equation was the fact that the farmers had become largely insulated from international price shock and the guaranteed prices by the IBC could help to protect the farmer from price crashes. This action demonstrated a degree of governmental effort to protect domestic coffee farmers, but also illustrated a movement to draw coffee under the control of the IBC and the state.\textsuperscript{26} While coffee has historically been an exceptionally important source of export income for the Brazilian government, by 1962 it had begun a steady decline when compared to the rapidly industrializing geographic micro-economies within the urban centres.\textsuperscript{27} However, the historical value of coffee helped to maintain its important position within the governmental sphere, despite its declining relative value. It is equally important to note that coffee provided a large source of employment and any change in coffee prices would greatly impact rural communities like those in Sul de Minas, despite the evidence of declining overall value.

While the IBC was parasitically funded by coffee production and sales, it also developed a patriarchal position toward Brazilian coffee cultivation. The government financed and encouraged intellectual institutions to develop scientific research on coffee agriculture.\textsuperscript{28} The initiative was designed to maintain the Brazilian coffee market share and overall national

\textsuperscript{24} Edmar Lisboa Bacha, \textit{150 Anos de Café}, 70.
\textsuperscript{25} Edmar Lisboa Bacha, \textit{150 Anos de Café}, 73.
\textsuperscript{26} C.F. Marshall, \textit{The World Coffee Trade} (Cambridge: Woodheard-Faulkner, 1983), 44.
\textsuperscript{27} Edmar Lisboa Bacha, \textit{150 Anos de Café}, 73.
production, further insuring that coffee remained an important commodity in Brazil. Annual IBC conferences produced a vast collection of diverse research on different elements of coffee production. One major focus was the development of new plant varieties that were resistant to Hemileia Vastatrix, commonly named ‘coffee leaf rust’. Brazilian research institutions were well supported and engaged with the international research efforts, developing a number of varieties resistant to the rust, including Catuai and Caturra, both of which were exported to other coffee-producing regions. The research also developed ‘dwarf’ varieties that were much shorter and ideal for mechanical harvest. The link between the IBC and the state enabled it to use universities and institutional resources for researching diseases and new coffee varieties.

Small producers in Sul de Minas identified the important role of the IBC in the effort to fight the spread of coffee rust, while others claim that the threat of coffee rust transformed the IBC into a more authoritative body. However, it is unlikely that this research capacity could have developed, or been accessible for small coffee producers, without the centralization of power in the IBC.

The Brazilian coffee sector began a process of modernization that was driven through the IBC. The IBC instituted the Program to Renovate and Reinvigorate Coffee (PRRC) and sought to increase the productivity of coffee, mainly in Minas Gerais. This program was accelerated by the devastating frost of 1975 that destroyed large tracts of coffee plants in the southern

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31 José Carlos, interview by author, São Sebastião do Paraíso, Minas Gerais, Brazil, April 18, 2011.
32 Francisco Borges de Oliveira, interview by author, São Sebastião do Paraíso, MG, Brazil, April 17, 2011; Francisco Borges was employed as an agronomist for the IBC at the Cooparaiso office, he was hired directly by the cooperative after the IBC was closed.
producing states (Parana, Sao Paulo). The IBC essentially re-modeled the Brazilian coffee landscape in this period by encouraging coffee re-planting efforts, largely in Minas Gerais, to move away from regions vulnerable to frosts. The frosts in Brazil created an informal, international race to gain a greater share of global coffee production, with the IBC intent on regaining Brazil’s production capacity. The IBC supplied massive credit to encourage coffee plantations in desired regions. With replanting underway, a new coffee agreement was signed in 1976, as Brazil wanted a guaranteed quota which would ensure a market for the replanting efforts and the top position amongst coffee producers. These actions helped to ensure the importance of Sul de Minas in the Brazilian coffee landscape.

The Process of Deregulation and Coffee Crisis

The IBC was a permanent federal institution that shaped the Brazilian coffee landscape, but the ICA was an international agreement that had to be renewed and renegotiated every four to five years, with the international political representatives in agreement on the regulations. By 1989, political commitment for the agreement had come to an end, particularly from the consumer countries. Internationally, the United States, as the largest coffee importer, was a major component of the ICA, but by 1989 the U.S. political landscape had changed. John Talbot provides one motivation for U.S reluctance to continue the agreement: “the (U.S.) State Department saw the ICA as primarily a geopolitical agreement designed to provide aid to the Third World countries.” Bates stressed the realistic use of the ICA by the U.S as a tool for

36 John Talbot, *Grounds for Agreement*, 67-101. For a detailed description regarding the international perspectives on the termination of the ICA.
37 John Talbot, *Grounds for Agreement*, 89.
political influence. Supporting Bates assertion was the shift in U.S. geo-political attention away from Brazil to Central America. Under the ICA, changes in trade quantities and partners were limited by the quota system, thus limiting the extent to which coffee could be used to influence international politics. Ultimately, the greatest motivation for the closing of the ICA was political change and the idea of international agreements was contrary to the ideology of a free-trade model; coffee was no longer excluded from this movement.

There were significant changes within Brazil leading up to the 1989 dissolution of the ICA. The Brazilian government underwent a slow process of ending authoritarian rule and, in 1985, the New Republic was proclaimed. However, the shedding of military influence took time and old state institutions like the IBC were perceived as remnants of the former government.

There was internal conflict in 1987/88 regarding how to finance the large coffee harvest. This issue became one of primary importance regarding the role of the IBC. In a broad sense, by 1989 there were disagreements in regard to the importance of the IBC but, ultimately, the destruction of the ICA also resulted in the dissolution of the IBC in March of 1990. The decision to dissolve the IBC was highly contended; some argued that the IBC could provide multiple essential services as a single institution, for it had international credibility, direct links to markets, and provided important resources and research for over 250,000 farmers. Others argued that the sector needed to be privatized like other commodities in Brazil, allowing for the domestic development of coffee roasters and exporters, and that the state was not needed in the free-market coffee economy.

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38 Bates, Open-Economy Politics, 121-122.
39 John Talbot, Grounds for Agreement, 89.
41 Edmar Lisboa Bacha, 150 Anos de Café, 107.
aligned with the international movement toward deregulation and market liberalism, but also shaped by domestic Brazilian politics.

The coffee crisis refers to the period of low international coffee prices, poor returns for producers, and global overproduction, which can generally be contextualized as occurring from 1990-2008. It is important to identify that the coffee crisis was a crisis for coffee producers, although it is often identified as a coffee cycle, or period of imbalance in the supply and demand of coffee after the termination of the ICA, but this casual analysis falls short. Stephano Ponte and Benoit Daviron identified an important aspect of the coffee crisis, termed the ‘coffee paradox’, whereby coffee producers received significantly less for their coffee although consumption prices continued to rise, breaking the basic rules of supply and demand and greatly reducing the gross and percentage of profit in coffee producing countries. The initial coffee crisis had an oversupply, but the major actors in the supply and demand relationship stayed within the commodity chain, with the majority of the profit shifting to the intermediaries who collected massive stocks, added ‘value’ to the product, and continued to maintain or raise the overall price of consumed coffee in the ‘global north’. The coffee paradox highlights the structural shift in power that was at the core of the coffee crisis, creating what Daniel Jaffee identified as the “unequal exchange.” As the crisis continued, there was certainly a negative correlation between coffee supply and the price received by consumers, but the coffee crisis was also a structural reorganization of power that disrupted the simple market economics. In this

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45 Stefano Ponte and Benoit Daviron. The Coffee Paradox, 89; Oxfam, Café do Brazil: Brazilian Coffee, The Bitter Taste of Crisis (Florianópolis, Brazil: Agnus Printers, 2002), 4.
46 Daniel Jaffee, Brewing Justice, 11.
context we are able to identify a shift in power in favour of the coffee industry that was typical of many commodities under the neo-liberal model.

For coffee producers, the coffee crisis consisted of two phases of very low prices and one brief pause. The first came directly after the dismantling of the ICA, as many countries flooded the market with their coffee stocks, which were bought by the large international intermediaries, thus driving the price of coffee down. After 1994, due to Brazilian environmental disasters and heightened market speculation, there was a slight rise in prices, followed by minor price oscillations up until 1998. Complicating the market, elevated international prices distorted demand and some coffee regions re-invested in coffee production and global production continued to climb. The overall increasing production during the mid-1990s led to the second phase of the coffee crisis, with drastically lower prices holding over a sustained period of time. The graph below demonstrates the dramatic movement of prices. The cost of production became greater than the value of the coffee in many different regions and the ICO proclaimed this period to be the “worst coffee crisis ever seen in terms of growers’ incomes.” In the early 1990s, coffee producing countries collectively earned USD $10-12 billion, but by 2002 the total earnings had dropped to $5.5 billion. In addition, the total value of retail sales had been $30 billion in the early 1990s and increased to over $70 billion by 2002. Raw green coffee prices

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47 Stefano Ponte and Benoit Daviron. *The Coffee Paradox*, 89.
were at an average of USD $1.20 per pound during the 1980s and then decreased to around $.50 per pound by 2002.  

The coffee price crisis had an impact on all coffee producing nations to some degree, typically harming the social and economic livelihoods of the producers. In most Latin American countries, coffee farmers either exited or reduced coffee production, but each country experienced the coffee crisis in a different manner and degrees. Various Asian and African countries were no longer limited or excluded by the coffee quota system, and sought to expand production, particularly of low-value Robusta coffee. Vietnamese coffee production was one area that rapidly expanded, and its focus was on the lower quality Robusta coffee, which fetched a lower price but was intricately linked to the conventional Arabica coffee ‘blends’. Vietnam, who had produced very little coffee before 1990, became the second largest coffee producer by 2000, contributing to the oversupply of coffee in the market.

In Latin America, the deregulation of the coffee sector had a significant impact. Many farmers reduced their production inputs, including weeding, pruning and the application of fertilizers. Some farmers focused on intercropping their coffee with other products, while others exited production altogether. An Oxfam publication from 2002 claimed that the sustained low price of coffee was “causing a development disaster whose impact will be felt for a long time.”

Countries responded to the coffee crisis differently; Bacon contends that in Central America, the

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54 Daviron and Ponte, The Coffee Paradox, 57-58.
coffee crisis caused farm foreclosures, migration and greater economic vulnerability, particularly for small producers. The ICO linked the coffee crisis with the Millennium Development Goals (MDG), suggesting that the low prices of coffee had a strong impact on livelihoods and made it more difficult for lower developed countries to reach the 2015 MDGs. The connection to the MDGs demonstrates an important link between coffee price, coffee production, and small farmer livelihoods. In an attempt to gain attention to the crisis, a group of Latin American Presidents from coffee producing countries issued a document concerning the worsening price of coffee and the impact it would have on producing countries, clearly demonstrating that while markets were deregulated, governments were still concerned with the price of coffee and the falling portion of value for producers. Despite the efforts to address the shifting power in the coffee industry, in many countries there was little direct government intervention because, as Topik states “any form of state intervention was delegitimized by neoliberal economic theory.”

The impact of the coffee crisis was unique for each country and depended on the importance of coffee in each particular economy, the role of governments in the coffee market, and the response of social movements/organizations. A few broad trends tended to emerge; the market price became the most important factor for producers and few countries could influence the price. Product quality became the main focus in an effort to gain a higher market price, but this initiative rested firmly on the shoulders of the producers. Countries that relied on coffee as a primary export in their economy tended to suffer the most, as evident by World Bank loans issued to Central American countries, and the expansion of United Nations (UN) food programs

58 ICO, Submission to the UN, (2005).
to reach producers in rural areas,\textsuperscript{61} supporting Jaffee’s research, indicating widespread economic harm for countries that relied heavily on coffee exports.\textsuperscript{62} In the more under-developed countries, the low prices resulted in a significant loss of jobs for paid labourers and the burden of labour shifted to the family system.\textsuperscript{63} In many countries farmers implemented strategies to insulate themselves from dependency on the international coffee market, such as the small-scale Colombian coffee farmers who intercropped their coffee to provide basic needs.\textsuperscript{64} Overall, coffee production in most Latin American countries, excluding Brazil and Peru, had decreased or stagnated.\textsuperscript{65} Nearly all coffee producing countries experienced a structural transformation and had to respond to the changes in market price and the shift of power toward trans-national corporations in the global north. Despite the crisis and structural changes, coffee has remained a fundamental crop for millions of small producers, a cornerstone of several economies, and a fundamental part of several different cultures.

The Coffee Crisis in the Brazilian Context

Understanding the broad impact of the coffee crisis in Brazil is particularly complex because the coffee landscape was very large and coffee was cultivated in various different geographic areas with different methods of production. The reaction of each region to the liberalization of the coffee sector was individual, and often depended on their ability to produce higher quality coffee. This geographic spread created a convoluted and disjointed coffee landscape, with various, different relationships occurring between producer agency and producer

\textsuperscript{61} Oxfam, \emph{Mugged: Poverty in your Coffee Cup}, (Sept. 2002), 10.
\textsuperscript{63} Robert, Rice, “Coffee Production,” 10.
\textsuperscript{64} Alvarez, “Colombian Family Farmer,” 105.
vulnerability. The Brazilian context was different from other countries for a number of reasons; Brazil had been the global leader in coffee production for over 200 years, coffee cultivation had developed into a farming culture, and families had committed generations to the production of coffee. Also, Brazil had a massive geographic area with a high capacity for coffee production and, unlike various other coffee producing countries, Brazil had not yet reached its geographic limitations. Brazilian production has largely focused on monoculture production with little shade cover and high levels of technological advances in some areas, including intensive use of chemical pesticides, fertilizers and herbicides. In addition, Brazil has a long history of direct state intervention which, on a macroeconomic level, maintained close relationships between the government and the coffee industry, ensuring that coffee remained an important crop for Brazil, small-farmer income, and rural jobs. Unlike many Latin American countries, Brazil had a relatively large and diverse economy by 1989 and the crash of coffee prices did not disturb the broad development of the Brazilian economy, despite its intense impact on the various areas that cultivated coffee.

There has been less academic attention given to the impact of the coffee crisis on Brazil as compared to other countries because, in part, the Brazilian case was different. While production decreased in most Latin American coffee regions, Brazil increased overall production, culminating in the largest harvest ever recorded in 2002/2003 of 46.5 million sacs. Furthermore, coffee was not a central commodity in the economy and the coffee crisis did not crash the overall economy, indicating that studies had to be regional, rather than national. However, there have been a few geographically focused studies on the conventional coffee

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67 José Teixeira de Oliveira, *História do Café no Brasil*, 511. It should be noted that this massive harvest certainly contributed to the second, and more prolonged, ‘phase’ of the coffee crisis.
landscape in Brazil. In 2002, Oxfam published a report on the coffee crisis in Brazil and largely concluded that the impact on small farmers was intense and harmful, and that they were being pushed out of the industry wherever they could not afford new technological methods or grow with economies of scale.68 Watson and Achinelli focused on the small farmers of the Zona da Mata region of Minas Gerais, who have struggled with the impact of low prices, stressed soil, and weak production levels. Their study concludes that the coffee crisis has expedited poverty and the intensification of coffee cultivation has hastened environmental degradation, and that small farmers have been further marginalized from state support and have become reliant on unstable international prices.69 Furthermore, the authors analyzed the relationship between intensified monoculture, small farmers, and the state, in order to demonstrate that the government had encouraged the use of chemicals to increase yields and a certain style of cultivation which maximizes production.70

The Sul de Minas is one of the largest coffee growing areas in Brazil and its response to the coffee crisis must be traced further back. Coffee cultivation in the region was intensely accelerated during the 1970s, as the IBC targeted this region for the expansion of coffee production.71 In 1985, after the IBC replanting program had concluded, there were over 700,000 hectares of land devoted to coffee cultivation. A study of Sul de Minas coffee production trends help to explain the relationship with coffee in the region. Coffee has long historical roots in Sul de Minas, but since the early 1970s and the encouraged expansion of coffee production in the region, the style of cultivation began to change and the region experienced a prolonged

‘green revolution’, or technification/modernization, of coffee production. This modernization is best demonstrated through the average density of coffee plants per hectare; in 1975 the average density of coffee shrubs was 1297 per hectare, which was increased to 1479 plants per hectare in 1985 and 1705 plants per hectare in 1985, following the advice of the IBC.\footnote{Brazilian Coffee Institute, \textit{Levantamento}, 53.} The primary variety of these plants were those derived from IBC research, the Mundo Novo and the Catuai;\footnote{Federação da Agricultura do Estado de Minas Gerais, \textit{Diagnóstico da Caficultura em Minas Gerais} (Sebrae, MG, 1996), 17.} these varieties of coffee could be planted closer together to garner a larger yield, resisted diseases and required the application of various chemicals. This style of production was largely propagated and incentivised by the IBC and reshaped the landscape of Sul de Minas.\footnote{Brazilian Coffee Institute, \textit{Levantamento}, 52.}

The shift in agricultural methodology sponsored by the IBC also included a reorganization of the physical geography on the farms. By 1970, only 25 percent of the coffee shrubs were planted in organized lines, often curling along the contours of the hills, in various parallel lines. The organized lines of cultivation became increasingly popular during the reinvigoration of coffee, as 53 percent were planted in this style by 1975, 85 percent by 1980, and 93 percent by 1985. The physical reorganization of coffee production developed parallel to the application of chemical fertilizers, as 93 percent of farmers used these products by 1985.\footnote{Brazilian Coffee Institute, \textit{Levantamento}, 53.} This style of cultivation was directly connected to mono-crop production and the mechanization of coffee producing areas.

The historical institutions and processes before the dissolution of the ICA and IBC largely shaped the direction of the Brazilian coffee landscape, but the long history of intervention was overthrown and the institutions and individuals no longer had the familiar structure from the IBC. In the aftermath, the government role in coffee, the structure and power of the Sul de
Minas cooperatives and the coffee producers with a long history of coffee cultivation, would have to renegotiate their position within the coffee industry. The institutional realignment was further complicated by the coffee crisis, that influenced the emerging shape of institutions, and intensified the vulnerability and capabilities of small producers in the coffee market.
Chapter One- The Role of the State

The dissolution of the ICA and the IBC occurred within a larger neo-liberal movement, embracing a process of deregulation that aligned with political and institutional changes in Brazil. Focusing on the coffee sector, the role of the state was rapidly reduced by 1990, but government involvement in the coffee sector changed from that of an active market player throughout the years of the IBC to a passive role to support institutions, and coffee producers as low coffee incomes threatened the livelihoods of the millions of people involved in Brazilian coffee cultivation. With a focus on small producers, this chapter will trace the reaction of the Brazilian government to the deregulation of the coffee sector and focus on the transformation of state institutions, in order to illustrate how the state role was initially reduced, although not entirely eliminated, and subsequently, coffee sector uncertainty grew along with sustained low prices, the role of the state gradually expanded again. This will be achieved by analyzing the period surrounding the 1989 dissolutions and subsequent coffee price decline, the development of new coffee institutions and the strengthening of existing agencies after 1995, and the response by the state to the continuously low prices during the 2000s, in order to understand the place of the Brazilian state in the ‘open-market’ coffee industry.

When the first ICA was being negotiated in the early 1960s, the Brazilian political institutions were rapidly changing. Politically ‘left-leaning’ Jânio Quadros came into power in 1960, but resigned quickly in the face of opposition. João Goulart then came to power, but faced difficult economic circumstances, including a poor balance of trade and significant debt. When Brazil’s political context changed after 1964, as a military regime took control and sought to reshape Brazil’s ideological positions. The Supreme Revolutionary Command voided the 1946

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76 Thomas E Skidmore, The History of Military Rule, 8, 12.
constitution, which prevented military officers from running for office. Castelo Branco was elected through the congress and a series of events occurred to consolidate state power, including a suspension of political rights, political purges and the implementation of torture. During this period of military rule Brazil’s international aims became increasingly connected with the United States, ensuring the continuation of regulated coffee trade. The ICA experienced periods of re-negotiation and suspension, but it mainly regulated the global coffee industry and the Brazilian coffee sector was used by the government as an international political tool. The ICA was partially linked to a period of government control over various elements of the Brazilian economy and society.

The role of the IBC was reformed and outlined in a law by the Ministry of Agriculture and Trade on March 25, 1976. The law outlined five core elements of the IBC: the varying branches of the organization were in direct and immediate control by the President; the institution oversaw planning, coordination, and control, including economic studies on coffee; the structure had both advisory and consultant bodies; separate executive branches focused on production (technical and research), exports, internal consumption, finances and administration; decentralized branches including regional and local agencies, storage facilities and external sales offices. These five central branches were wide-reaching through the entire coffee sector, and their influence was firmly rooted in Sul de Minas, as one of the regional agencies was situated in Varginha, a core coffee region in the Sul de Minas. Out of these branches emerged the most important functions of the IBC for the coffee producers. The board of directors managed the

81 Federal Law, 77.339, March 26, 1976. Most of the regional offices were located in major urban cities rather than directly in the coffee zones, but Sul de Minas was an exception.
assets, finances, services and the stocks in the IBC warehouses. The local agencies were responsible for the management of local areas, including technical advice and financial assistance. The power of each aspect should not be overstated, but the IBC held a strong presence in most activities in the Brazilian coffee industry.

The IBC governed the national coffee policy and fulfilled the requirements under the ICA, but its role contained other important aspects of Brazilian coffee industry. The majority of scientific research was performed within the IBC, or in conjuncture with academic institutions funded by the state. The most important university was Campinas University in Sao Paulo state, where new coffee varieties were created that could be planted more densely and had greater resistances to coffee leaf rust. In addition, the IBC maintained significant infrastructure in the shape of storehouses and access roads to coffee production. This was particularly important for Sul de Minas, because there are various small regions of coffee production over a large area, and a web of infrastructure helped to transport the coffee. On the commercialization side, the IBC financed overseas offices in their major importing countries and developed the infrastructure to ship coffee from Brazil to various international markets. They also collected a sizable coffee tax on all coffee sold. However, there was a guaranteed price floor which producers would receive for their crops, which offered security from price crashes, as the IBC maintained a relatively stable and predictable coffee economy. The IBC was directly involved in the market and functioned as the middle-man between the Brazilian coffee sector and the international market.

84 Jose Luis dos Santos Rufino, Programa Nacional de Pesquisa e Desenvolvimento do Café: Antecedentes, Criação e Evolução (Brasília: Embrapa Informação Tecnológica, 2006), 61-79.
85 No Author, Museu do Café, Retrospective: 50 Years of Coffee and Brazil, Production, Trade, Industry, Consumption, 1950-2000 (Santos, Brazil: Muesu do Cafê, 2004), 77.
There were significant changes occurring within Brazil leading up to the dissolution of the IBC. The Brazilian government had gone through a slow process of ending authoritarian rule. In 1985, the New Republic was proclaimed, but the shedding of military influence took time. The IBC became a political issue, as there were internal disagreements in 1987/88 regarding how to finance the large harvest. This issue polarized political opinions regarding the future of the IBC. In a broad sense, despite the disagreements that took place over the IBC leading up to 1989, its destruction was ultimately connected to the dissolution of the ICA. The decision to dissolve the IBC was highly contended; some argued that the IBC could provide multiple essential services as a single institution, for it had international credibility, direct links to markets, and provided important infrastructure, resources and research for over 250,000 farmers. Others argued that the sector needed to be privatized like other commodities in Brazil, also allowing for the development of coffee roasters and exporters, and that the state was not needed in the free-market coffee economy.

Dissolution and Position of the Brazilian State

In 1990 President Collor closed the IBC and initiated a period of institutional change as the entire coffee structure underwent a transformation. The IBC had been the foundation of the coffee structure and by 1989 the institution was an enormous state agency, constituting over 4000 staff members, 120 offices in the federal capital Brasilia, and over 100 storehouses throughout the country. The department of technical assistance and the department of coffee research were

87 Edmar Lisboa Bacha, 150 Anos de Café, 107.
88 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 50.
89 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 61-64.
90 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 64-65.
also dissolved.\textsuperscript{91} The hasty closing of the IBC resulted in immediate problems because there was a general lack of information in the coffee industry, as one commentator stated: “after the breaking of the International Coffee Agreement in June of 1989, the state practically left the coffee sector to its own luck.”\textsuperscript{92} The lack of information created a period of confusion and there were no consistent or accurate harvest forecasts for Brazil either internationally, nationally or regionally. Various cooperatives, institutions and exporters issued their own harvest forecasts but the variation was great.\textsuperscript{93} Harvest forecasts allow producers to make investment and sales decisions, and also determine factors that shape financial investments in coffee futures stocks.

The United States Department of Agriculture (USDA) cast their own predictions on the Brazilian harvest, which held great influence on the coffee prices, particularly because the USDA’s estimate for 1993/4 was 3 million sacs higher than any domestic Brazilian estimate.\textsuperscript{94} Overall, this brief period was clouded with uncertainty over the direction of coffee in Sul de Minas and there was general confusion in the coffee sector for producers, cooperatives and politicians.

Despite the shift to an open-market economic policy coupled with the deregulation of various state institutions, including the IBC, a few important subsidiaries and newly formed state institutions continued to function. The government established the Fundo de Defesa da Economia Caféeira (Funcafé) on November 21, 1986.\textsuperscript{95} It was mandated to provide credit to coffee producers, encourage higher external prices and cultivate the internal market for coffee consumption.\textsuperscript{96} The survival of Funcafé beyond 1989 could have been due to its institutional

\textsuperscript{91} Carlos Melles, \textit{Novos Rumos da Política Caféeira} (Entrevista concedida a Agronalysis, revista de economia agrícola da Função Getúlio Vargas, 1999), 15.
\textsuperscript{93} Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 62.
\textsuperscript{94} Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 63.
\textsuperscript{96} Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 50.
separation from the IBC, as it was a rather new institution founded in 1987, which focused mainly on financial aspects. It was funded directly by the Central Bank of Brazil and administered by the Bank of Brazil, the state owned bank. In 1990, Funcafé was moved under the authority of the Ministry of Industry and Commerce, which indicates the function of Funcafé at the time.\footnote{Clóvis Paulo Lisboa Mezzomo and Maria Teresa Franco Ribeiro, “Os Novos Desafios da Cafeicultura, A Trajetória do Sul de Minas” Informe Agropecuário: Globalização da Economia e o Agronegócio Vol. 20 N.199 (Belo Horizonte: July-Aug. 1999): 85.} The institution was not relocated to the ministry of agriculture or the development institution to support producers, but was essentially designed to maintain finance decisions, including credit for production, exports and domestic consumption sectors. However, Funcafé did not have nearly the same financial support or overall power that the IBC previously held. Funcafé was a political tool, not a political body, and after 1990 there was a period of political inaction regarding the function and power of Funcafé. For the most part, the institution stagnated, mired in indecision and various transfers to different government agencies.\footnote{R.G.R. Andrade, “Política Cafeeira e Grupos de Interesse,” (Belo Horizonte: Fundação João Pinheiro, 1995), 62.} Despite the lack of political attention, Funcafé managed to help stabilize the rapidly changing coffee sector. The overall impact of Funcafé during the first coffee crisis is difficult to assess, but Sul de Minas politician, Cooparaiso president and coffee producer Carlos Melles, predicted that without Funcafé the coffee sector would not have had sources of finance or credit, which would have cast doubt on the continued production of coffee for many farmers.\footnote{Câmara dos Deputados, “Comissão Especial-, Protejamos O Café Contra A Próxima Crise,” (Brasília: Centro de Documentação e Informação, 2009), 23.}

The early 1990s experienced falling coffee prices, which were partially attributed to producer countries selling their coffee stocks accumulated under the ICA on the open-market. Funcafé, which had inherited the responsibility for the 17 million sacs of coffee in the Brazilian stock, resisted selling the stocks. The overall supply on the coffee market after 1990 increased
by roughly 10 million sacs, or 14 percent of overall supply, driving the price down. The price continued to fall despite Brazil’s non-participation and continued maintenance of coffee stocks. The early actions of Funcafé suggest that the government was conscious of the declining coffee prices, and accepted a small role for the state. This early period of the coffee crisis would identify Funcafé as one of the few coffee-focused state institutions that survived after 1990, becoming a continued avenue for government intervention. It is difficult to speculate the importance of holding the sacs of coffee off the market during the early 1990s but it certainly helped to prevent a further decline in the international coffee price.

The early period of the coffee crisis was accompanied by a general lack of information in Brazil while the price of coffee was rapidly changing. Shifting power to international institutions and lacking domestic information, the Brazilian coffee market was increasingly difficult to predict and, as time passed, the open-market price consistently fell. In recognition of the worsening market prices, there were contention and challenges to the process of deregulation. In 1992, the large producers, cooperatives and exporters were encouraging the government to seek a new international coffee accord to regulate the price of coffee. The motivation for a new accord was due to the decreasing prices after the ICA/IBC dissolution. There was no united voice among intellectuals or state officials during the early period of the coffee crisis. Brazilian economists, writing in 1993, predicted that the open-market would stabilize the price of coffee around USD $2.00 per pound once the supply glut had passed; they primarily attributed this to the removal of the IBC exchange tax, or ‘cambio’, on producers. However, in a broad oversight that disregarded many other coffee producing nations, much of their analysis did not account for

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101 Rogério Geraldo Riveiro Andrade, “Cafeicultura Em Minas Gerais,” 77.
the tendency toward coffee over-production, and they predicted rising prices and stability rather than the reality of the long lasting coffee crisis.\textsuperscript{103}

There was growing political discontent among many coffee producing nations as well as within Brazil. Declining coffee prices and vastly reduced state involvement continued up until 1993, when various coffee producing countries sought to develop a new political agreement to control the supply of coffee on the global market. The “Associação dos Países Produtores de Café” (APPC) was supported primarily by Brazil, who sought to encourage an agreement on supply retention by the major producing countries. The aims were much simpler than the previous ICA, and the initiative was an early effort to re-regulate the coffee market and move away from an open-market. The development of this ‘south-south’ movement indicates some degree of interest among other producer countries, but its ultimate failure may point to the erosion of strong national coffee institutions that were essential in the previous international agreement. The APPC represented political action seeking to unite international suppliers, indicating that producers were aware that their power over the price of coffee was shifting to the large trans-national middlemen and coffee institutions in consuming countries. Crucial to this period was the fact that there was little political will to rebuild a Brazilian national institution that had been recently destroyed, but Ribeiro accurately suggests that perspectives were changing and the idea that the free market was beneficial for all segments of the coffee industry in Brazil had quickly faded.\textsuperscript{104} After years of low prices and absent leadership there was a moderate and growing call for renewed government presence.

The national political landscape also underwent significant changes that contributed to reshaping the relationship between the state and the coffee sector. The 1990s underwent various


changes in presidency and perspective towards the state and neoliberal policy. The economy experienced rapid inflation and overall economic uncertainty as the Collor government fell in 1992 under suspicion of corruption, and the Franco government took its place.\textsuperscript{105} The economic uncertainty resulted in the institution of Henrique Cardoso’s ‘Plano Real’, an economic action plan that was instituted in 1994, designed to stop the hyper-inflation, link the Brazilian Real with the U.S. dollar and change the national currency. Cardoso won the next federal election and became president in 1995; he continued to implement policies focused on economic privatization and domestic market liberalization, while limiting problems with inflation.\textsuperscript{106} In addition, Cardoso initiated a number of small reforms in social security that focused on greater privatization and ensured that social security was a public system, which was largely continued under the next administration.\textsuperscript{107}

The Cardoso administration was mainly focused on economic liberalization policy, both domestically and internationally, but the election of the Lula administration brought a change in perspective, particularly regarding domestic policy. The federal government created a number of programs designed to support the high number of people in extreme poverty through direct state intervention.\textsuperscript{108} Importantly for the sake of this paper, the Lula administration made clear and committed actions to draw the state back into the market, and justify the use of government authority to address gross social inequality. The Lula administration came to power with considerable socialist rhetoric, but in action the macro-economic policy did not overly reverse the direction of the Cardoso administration, although the expansion of social programs indicated

\textsuperscript{107} Maria Antonieta P. Leopoldi, “Reforming Social Security under Lula: Continuities with Cardoso’s Policies,” in *Brazil Under Lula: Economy, Politics, and Society under the Worker-President* (New York: Palgrave MacMillan, 2009), 227-228.
\textsuperscript{108} Edmund Amann and Werner Baer, “The Macroeconomic Record of the Lula Administration, the Roots of Brazil’s inequality, and Attempts to Overcome Them,” in *Brazil Under Lula: Economy, Politics, and Society under the Worker-President* (New York: Palgrave MacMillan, 2009), 35-40.
a shift in domestic policy. One important indicator was the appointment of Roberto Rodrigues as the ministry of Agriculture, as Rodrigues was supported by the cooperatives and firmly linked with agro-industrial interests. These interests and the continuation of the Cardoso economic policies reflected the aim of the Lula government to maintain policy moderation and avoid political clashes, while instituting new programs for social assistance, and recreating a role for the state to address social and economic issues domestically.

Re-structuring of Government Coffee Institutions

After 1994, a number of government coffee institutions were founded, or solidified, in the Brazilian coffee industry. The Conselho Deliberativo da Política do Café (CDPC) was founded in 1996. Initially formed as a “special commission to govern Funcafé”, the CDPC became the more important coffee governing institution and represented the re-institution of the state in coffee sector policy. Unlike the IBC, the CDPC united private and public sector players; the membership consisted of six representatives from the state, three representatives from production (typically from cooperatives), and one from the export, soluble and roasting industries respectively. The merging of private and public management frames the role of the state as a partner of private industry, growing a domestic industry and a domestic consumer market, linked with the re-expansion of the state in the coffee sector. The CDPC also solidified the ideology of the state toward coffee production. The CDPC was initially created to increase the power and governance of Funcafé, it did so by re-instituting former IBC employees previously involved in

the “Agro-industrial System of Coffee” (SAC), which had been closed with the IBC. The reinstitution of the former IBC employees, particularly those from the perspective of agro-industrial coffee production, framed the perspective of the state to encourage the continued expansion of industrial coffee production. The CDPC ultimately developed into a political body which determined the actions of other institutions, including Funcafé, Programa Nacional de Pesquisa e Desenvolvimento do Café (PNP&D/Café), Empresa de Assistência Técnica e Extensão Rural (EMATER), and Empresa de Pesquisa Agropecuária de Minas Gerais (EPAMIG). CDPC fulfilled roles that were absent since the closing of the IBC, issuing reliable information about the Brazilian coffee market, including stocks, annual harvest reports and more accurate future production predictions. The aim of CDPC was to expand the ability of coffee producers to compete in the international market, relying on production modernization and financial support provided with Funcafé. It is critical to note that the private sector represented 50 percent of the management, but that representation was largely with the cooperatives, strengthening them as the institutional middle-man between producers and the state.

The National Program to Strengthen Smallholder Agriculture (PRONAF) was instituted in 1996 and was designed to provide credit to small agricultural producers. PRONAF was particularly important for small producers because access to credit had eroded with the closing of the IBC, and they typically did not have the financial resources to reinvest, improve quality, or sustain the low returns from coffee harvests. The coffee crisis had an immediate and sustained

impact on the livelihoods of small coffee farmers. PRONAF was not created only for coffee producers, but for many other agricultural producers sharing similar experiences in the broader liberalization movement. PRONAF was partially a response to social movements that had occurred during the mid-1990s, in particular the National Confederation of Agricultural Workers (Contag) and the Movement of People Without Land (MST), including small coffee producers who identified with the struggle to keep their land and livelihoods.117 Other factors beyond rural social movements contributed to the formation of PRONAF, but ultimately the credit program was an important response by the government to develop rural and agricultural support systems for small family based agriculture. David contended that the most marginalized and politically inactive or geographically isolated producers were likely neglected by the program.118 However, Sul de Minas had relatively good infrastructure, government offices and cooperatives, all which enabled small producers to access PRONAF.

PRONAF credit was granted to small farmers based on their income and production capacity, but it was also created as a method for the state to shape small farmer production. The PRONAF system was based on four primary activities: financing production, financing infrastructure, improving capacity of small farmers, and financing rural extension and technology transfer.119 The institution of the PRONAF program recognized the increasing reliance on credit, linked with increasing reliance on chemicals and mechanized coffee production. Credit became crucial for the production of coffee in Sul de Minas, and PRONAF became an exceptionally important system for small coffee producers in the region.120 The

120 Various small producers confirmed the importance of PRONAF and access to credit at low interest rates.
creation of PRONAF showed governmental recognition of the vulnerability of small producers, recognition that they required state intervention in certain sectors to ensure survival. The potential for high quality in Sul de Minas was a factor that motivated further investment in coffee production, and small coffee producers used PRONAF in an effort to improve either their infrastructure or production.

The establishment of the CDPC and solidification of the Funcafé and PRONAF programs indicated greater state involvement in the coffee industry, providing subsidized credit and political direction. In addition, a state-financed commodity purchasing program, “Companhia Nacional de Abastecimento” (CONAB), continued to purchase sacs of coffee from producers on behalf of the state. CONAB was a system designed to purchase coffee during a specific period, but the price was typically below the market price and was not advantageous for producers unless there were no other options. CONAB was an official agency of the federal government and remained engaged with coffee production, but also grew as an institution and became the provider of essential information, including the Brazilian forecaster for national production levels, stock management, estimates regarding the costs of production, and information regarding methods of productivity to increase profits.121 CONAB was significant because it maintained government activity in the domestic market for coffee, but to a much lower extent than before.

The restructuring of the coffee landscape after 1989 suppressed the centralized, state-driven scientific research and development programs. These research and development programs were a primary focus of the IBC, which was immensely concerned with the threat of coffee leaf rust in the late 1960s to the 1980s.122 The expansion of scientific research in the

122 Instituto Brasileiro do Café, *1st Congresso Brasileiro Sobre Pragas e Doenças do Cafeeiro, Resumo dos Trabalhos Apresentados* (Vitória, Brazil, 1973); Marcos Bittencourt, “Em Busca de Maturidade,” *Revista do*
coffee industry had driven the Brazilian coffee ‘green revolution’ and encouraged a shift to intensified, input heavy, industrial style production. During the early 1990s, coffee research largely decreased as the responsibility for research was transferred to other institutions that had limited funds or research capacity. However, in 1996, under the management of the CDPC, the National Program for Coffee Research and Development (PNP&D/Café) was founded. A series of subsidiary institutions were created for scientific research, technology and socioeconomic assessments and improvements. The government research structure expanded rapidly and financed over 1500 researchers and technicians, and also connected with various Brazilian Universities to engage in coffee research. *Cafeicultura*, a Brazilian coffee trade magazine, commented on the role of the PNP&D/Café, stating that it’s “existence reinforced the importance of scientific research to maintain Brazilian leadership in the competitive coffee business.” Various smaller institutions were centralized under the PNP&D/Café, as the government constructed a new centralized research body.

**Post-1999, Low Coffee Prices and Gradually Stronger Government Institutions**

After 1999, the second phase of the coffee crisis developed and coffee prices remained low for years. The onset of the second phase of low coffee prices experienced a different reaction from the state institutions when compared to the 1990s. The first decade after the termination of the IBC was one of institutional restructuring, as certain institutions were renovated or their particular roles changed, and other institutions were founded and became

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major factors in the coffee landscape, including PRONAF, CDPC and the PNP&D. The state removed itself from direct price controls and secured a position behind the producer, and even behind the cooperatives. After 1999, the state institutions did not change to any great degree, but their functioning changed a great deal, as many institutions received greater funding and support, and also shifted focus to developing programs intended to help the small coffee producers. Although the re-expansion of the state did not intervene directly to influence the market price of coffee, the government did become engaged in the coffee sector, ensuring lines of credit at good rates, spurring research and innovation, developing coffee purchasing programs, and investing to expand the internal market. However, coffee producers, particularly small producers, still experienced the worst coffee prices of their generation, and the overall ability of the state to change this without direct price intervention was limited.

Cooparaiso estimated that nine out of every ten dollars needed to finance coffee production in Sul de Minas had to come from credit, stressing the importance of credit access despite declining coffee prices and returns. Funcafé continued to function throughout the coffee crisis and remained an important source of credit for coffee producers and a method of intervention and support from the state. One crucial element to Funcafé financing was the interest rates on the loans. In 2001/2002, a Funcafé loan was 9.5 percent annually while alternative rural credit lines were 24-25 percent per year. Furthermore, in 2007, after years of dismal coffee prices, the rate on Funcafé loans was reduced from 9.5 percent to 7.5 percent for

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125 Ilson, interview by author, Cooparaiso, São Sebastião do Paraíso, April 23, 2011.
127 Antônio Carlos Duarte, “Cédula de Produto Rural (CPR) e Mercados Futuros e de Opções como Instrumentos de Financiamento e Redução do Risco na Cultura de Café” (master’s thesis, Universidade Federal de Santa Catarina, 2003), 57.
all operations. However, the evidence suggests that the majority of Funcafé loans were accessed by large producers. In 2005/6 for example, loans for the harvest and stocking in Minas Gerais totalled 73.5 million reals, of which 72 million reals was loaned to 1355 ‘big producers’ and only 1.4 million was loaned to 88 ‘mini’ and ‘small producers’. In the same period, the Funcafé loans for production costs in Minas Gerais totalled 337 million reals, of which 327 million reals was directed towards ‘big producers’ and cooperatives, and the remaining 10 million was loaned to ‘mini’ and small producers.

The primary option for small producer credit was the PRONAF loan system, which became increasingly more popular every year after 1999. PRONAF credit rates were very low compared to the conventional market and only available to small producers. While Funcafé rates fluctuated around 9.5 percent annually, the commercial credit market could be as high as 25 percent monthly. The low credit rates through PRONAF reflected state recognition that small producers did not have the capital, assets or income to rely on private sector credit access. In 1999 the typical PRONAF rate for small loans was 4.1 percent per year, which was reduced to 3 percent per year by 2007. The declining rates of interest indicate the success of the program and a growing willingness by the state to support small farming and, particularly for Sul de Minas, small-scale coffee farming. The PRONAF system represented a shift in government focus and a form of direct credit-market intervention for small producers, but it also created greater indebtedness and commitment to coffee. PRONAF also contributed to the mechanization

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128 Ministério da Agricultura, Pecuária e Abastecimento, Fundo de Defesa da Economia Cafeeira, Relatório de Atividades (Brasilia: Mapa/ACS, 2009), 20.
of the small producer, offering very good credit lines on small tractors and various harvest
machines, as well as longer-term loans for infrastructure (terraces were frequently paid for
through PRONAF loans).

By 2004/5, the Funcafé limit for loans was set at R $1200 per hectare of coffee with a
maximum loan of R $100 000, and repayment had to occur between 30-45 days after the
harvest.133 The access to loans could function directly or through a cooperative, which
represented points of interaction between the state and the coffee producers. By 2008, the limits
had expanded to R $4000 per hectare of coffee planted and a maximum loan of R $400 000 per
producer. In addition, R$ 750.000,00 limit was established for stocking credit and, of the total
allotment of money for stocking credit, Funcafé diverted 50 percent of the fund to rural
cooperatives who benefited or encouraged industrialized coffee production.134 The diversion of
credit to cooperative members clearly indicates that the state encouraged a specific style of
coffee production that aligned with the historical trend during the IBC, that of dense monoculture
coffee cultivation and profit maximization from each hectare. Over the course of the coffee
crisis the total funding for Funcafé increased to USD $1.2 billion by 2005, with the specific goal
outlined by President Lula to “ensure that farmers will not be at the mercy of unforeseen events
and market fluctuations and can manage to negotiate their product at the fairest prices.”135
Funcafé continued to function and remained a major element in the coffee landscape of Sul de
Minas and Brazil as a whole.

134 Ministério da Agricultura, Pecuária e Abastecimento, Fundo de Defesa da Economia Cafeeira, Relatório de
Atividades (Brasília: Mapa/ACS, 2009), 23.
135 Luiz Inácio Lula da Silva, “Statement by the President of the Republic of Brazil,” (Speech, At the Opening
Ceremony of the 2nd World Coffee Conference, Salvador, Bahia, September 2005).
In 2008, after years of low coffee prices, a new law was passed regarding the governance of the Funcafé program.\textsuperscript{136} The law instituted a new perspective to the program, indicating an aim for the “development of the coffee economy” which had the political objective to create a developed, profitable and socially sustainable coffee system. Including the new aim to finance a sustainable social element, by 2008 Funcafé had financed and managed various different elements of the Brazilian coffee landscape. These included the administration of the program, publication of coffee reports, promotion of Brazilian coffee externally and domestically, research and development, financing various elements of production, management of the coffee stocks, economic assessment of different costs during the annual coffee cycle and contributing to the International Coffee Organization (ICO).\textsuperscript{137} In 2009, a legislative commission published a document on Funcafé, titled “Protecting Coffee Against the Next Crisis”, which stressed the continued role of Funcafé in the coffee sector. The document also expressed farmer discontent with Funcafé and other government coffee policies, and indicated that low coffee prices had made life particularly difficult for the producers, and that their discontent with the government could not be separated from price struggles. In addition, the document called for greater state involvement in supporting the coffee industry through regulation and the supply of discount-rate credit, and greater communications between CDPC, Funcafé and producers.\textsuperscript{138}

The Funcafé and PRONAF programs have been emphasized in this paper because they were the state programs directly discussed by small producers and cooperatives, but a brief mention of the Development Bank of Minas Gerais (BDMG) will indicate that although Minas Gerais had an official ‘development’ bank, it was not overly concerned with micro projects or

\textsuperscript{136} Federal Law, n. 11 653, (April 7, 2008); Federal Law, n. 11647, (March 24, 2008).
\textsuperscript{137} Ministério da Agricultura, Pecuária e Abastecimento, \textit{Fundo de Defesa da Economia Cafeeira, Relatório de Atividades} (Brasília: Mapa/ACS, 2009), 14.
\textsuperscript{138} Câmara dos Deputados, \textit{Comissão Especial - Protejamos O Café Contra A Próxima Crise} (Brasília: Centro de Documentação e Informação, 2009), 19-23.
small-scale coffee producers. BDMG’s approach changed in the early 1990s and aligned with the contraction of state power to support agricultural producers, stating that “globalization configured a new model of development.”¹³⁹ In a broad sense, BDMG developed a focus on large projects, investing in infrastructure and economic initiatives that were aimed at encouraging the establishment of international businesses in the state.¹⁴⁰ In 2005, the perspective of BDMG changed to include greater focus on small business, but their view of development was very much aimed at facilitating business, not commodity producers.¹⁴¹ In this line of action, BDMG financially supported both Cooparaiso and Cooxupé with various infrastructure construction programs, including the most recent storage and processing facility at Cooxupé.¹⁴² BDMG had developed into another intuitional link between the state and the cooperatives, indicating that the perspective of the ‘development’ bank was to encourage economic business activity in a neo-classical developmental approach.

Research and Development in the Coffee Sector

The Brazilian coffee sector had a long history with coffee research and outreach, dating back to the efforts of German agronomist, Franz Dafert, who first sought to apply scientific research to the production of coffee.¹⁴³ Throughout the period under the IBC, research and development of technology was fundamental for the Brazilian coffee landscape. After the collapse of the IBC, the research largely ceased, as funding was basically absent but over the course of the coffee crisis, the research and development institutions were reinvested and

¹⁴⁰ Geraldo Coelho Lima Neto, A Trajetória do BDMG, 85.
¹⁴¹ Geraldo Coelho Lima Neto, A Trajetória do BDMG, 87.
recognized as increasingly important. By 1999, producers, cooperatives, associations and academics were stressing the importance of research institutions to contribute to stabilizing the coffee industry in Brazil, reducing risks and raising production. \(^{144}\) After 2001, there was a renewed focus to retool research and development and aim toward creating a more sustainable coffee sector, including greater university research funding and a focus on the social and economic problems facing small producers. \(^{145}\) However, the new direction also continued to focus on profit per hectare, dense, mechanically accessible planting, and transferring technology to producers at various levels of production. \(^{146}\) By 2000, the discourse began to change and research and development institutions set their primary goal as improving the lives of coffee producers while creating a sustainable and environmentally conscious sector. \(^{147}\) Some institutions developed programs to encourage movement out of coffee for small producers, suggesting methods to diversify family income, and also supported coffee quality programs, but these were not overly popular in Sul de Minas. The most important program for Sul de Minas was the Minas Gerais state coffee certification program, which established specific rules for production and technical assistance to generate higher yields, better prices and sustainable environmental practices. \(^{148}\)

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\(^{147}\) João, interview by author, manager of EMATER, São Sebastião do Paraíso location, April 25, 2011.

\(^{148}\) EMATER-MG, Certificação do Café, Mais Qualidade para os Cafés de Minas, Pamphlet, 4.
Two state research and development institutions became increasingly important for small producers in Sul de Minas, and changed over time due to the social impact of the coffee crisis. The institutions of EPAMIG-MG and EMATER-MG were both funded through the CDPC, and to a lesser extent, the surrounding city. EMATER was an institution designed to provide technical assistance and agricultural advice. EMATER had existed while the IBC had governed the Brazilian coffee sector, but it had been a much smaller organization and its focus was on other crops because, according to the EMATER director in Sao Sebastao do Paraiso, it was “theoretically prohibited to research coffee.” After the dissolution of the IBC, there was a considerable expansion of coffee-based research at EMATER, but the movement of resources and personnel required time and motivation. EMATER manager João indicated that after the dissolution of the IBC there were few places that farmers could go to for advice, particularly regarding production problems with diseases, insects and choice of coffee to cultivate. During the 1990s, the primary focus of EMATER was to provide technical assistance to increase production levels, and increase farmer harvests. It is important to identify that these were Minas Gerais agricultural institutions, but in Sul de Minas, their primary focus after 1990 was coffee production and coffee farmers, and in Sao Sebastião do Paraíso, coffee comprised almost all of the farmer inquiries.

After 2000, the perspective and advice of EMATER changed paradigms due to poor international prices and the difficult economic environment for small producers. The government increased the investment in EMATER and cultivated a new perspective of social support in improving the livelihoods of small producers. The state provided funds for

149 João, manager of EMATER at São Sebastião do Paraíso location. interview by author, São Sebastião do Paraíso April 25, 2011.
150 João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011.
151 João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011.
infrastructure, the purchase of computers, specialized agronomists and vehicles to reach farmers. As EMATER modernized, the goals of the institution were overhauled to focus on supporting economy, family, community, and the environment.\textsuperscript{152} In 2003, EMATER implemented a new program to “shock the management” to align the new institutional philosophy among all branches, and center the new focus on social support.\textsuperscript{153} In 2005, EMATER announced the “New Rural Extension” that focused on sustainable development and social attention. In 2005, a “valorization of the person” program was implemented to invest in and increase skills of farmers.\textsuperscript{154} These programs were particularly important in Sul de Minas because EMATER developed a state-producer relationship that was strengthened over the course of the coffee crisis and sought to address social vulnerability.

The new direction of EMATER after 2000 regarded social programs as important, but still maintained a focus on the technification and intensification of coffee planting in Sul de Minas. EMATER became the meeting point between the scientific research institutions and coffee farmers. Large farms tended to hire private agronomists, or they would often have one on staff. Small farmers turned to the free services offered through EMATER, or to their cooperative, for access to agronomical advice. Through EMATER small farmers could gain advice about the quality of their coffee, how to improve quality, what type of coffee to grow and how to suppress coffee diseases.\textsuperscript{155} Furthermore, EMATER became one of the primary locations to apply for PRONAF loans, which were only available to small producers, and also the only location to apply for the “Certification Minas” coffee certification. EMATER became increasingly engaged in coffee in Sul de Minas by offering various services and targeting small

\textsuperscript{152} Serviço Nacional de Aprendizagem Rural, \textit{Relatório de Atividades Senar Minas 2010} (Brazil, 2010); 48.
\textsuperscript{153} João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011.
\textsuperscript{154} EMATER-MG, \textit{EMATER-MG, Mais que uma Empresa, um Patrimônio de Minas}, Pamphlet.
\textsuperscript{155} João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011.
producers; it became one of the only options beyond the cooperatives. Importantly, it became a gateway for the state to implement its perspective on small farmers on how coffee should be cultivated in Sul de Minas. As the director of the Sao Sebastao do Paraisio EMATER branch claimed, “EMATER is the government”.

EPAMIG functioned as a research institution for various agricultural crops; founded in 1974 it was closely tied to the IBC before its closing. EPAMIG focused on developing and testing technology and agricultural products, and the results and recommendations were sent to EMATER, and then to the producers, creating a chain of research, outreach and application. The period from 1987 -1995 was a period of stagnation for EPAMIG as there was little government interest or investment. After 1998, there was increased government investment and EPAMIG expanded to include five different locations that solely focused on research regarding coffee, one of which was located in São Sebastião do Paraíso and focused on Sul de Minas coffee. The five locations were necessary because different micro-climates, geography and cultivation methods contributed to determining which coffee would generate the highest yield, or resist certain diseases. Furthermore, the five dedicated coffee locations were justified with reference to the consistently low prices after 1999 and the high number of people who worked directly and indirectly with coffee in Brazil.

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156 João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011.
157 The date was significant as coffee research under the IBC was still concerned with the threat of coffee leaf rust and EMAPIG became the primary point to disperse research information for Minas Gerais coffee production.
158 Juraci Júnior de Oliveira, manager of EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
160 Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
The primary location of EPAMIG research for Sul de Minas was located near Sao Sebastião do Paraíso. The experimental EPAMIG station focused solely on coffee cultivation and maintained a farm with 68,000 coffee plants, including roughly 20-30 plants per experiment.\textsuperscript{161} The director of the program stressed that the primary goal was to improve productivity and quality and all coffee at the farm was to be cultivated with chemicals and planted in rows accessible for mechanical harvesters.\textsuperscript{162} The coffee experiments accounted for costs and profitability, including the ratio of chemicals, quality, density of planting and resistance to disease. EPAMIG did not cultivate shade grown and organic coffee, chemical based cultivation was the only method understood as potentially profitable.\textsuperscript{163} The institution also focused on developing technology and programs that could be used by the small producer. Working with the Federal University of Viçosa (UFV), they developed inexpensive, rapid drying terraces.\textsuperscript{164} Furthermore, the Certification Minas program was developed at the EPAMIG experimental farms, specifically seeking rules of cultivation for better quality and increased production, in order to remain competitive in the international coffee market,\textsuperscript{165} solidifying its position as the largest research and development institution in the world.

\textsuperscript{161} A few highly productive regional varieties have been developed, including “Paraíso” and “Catiqua-MG 3” which were variations of the catuai and mundo novo varieties.
\textsuperscript{162} Juraci Júnior de Oliveira, manager of EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
\textsuperscript{163} Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011. This information was expressed by EPAMIG agricultural technician Homero while on a tour of the EPAMIG experimental farm. Homero specialized in the productive potential of differing chemical applications. The coffee research at São Sebastião do Paraíso was extensive, well documented, with over 800 different experiments including coffee varieties from various international coffee regions. The experiments documented each specific application of chemical, and calculated the cost of inputs to estimate a final production price for the producer. In addition, the experiments took a detailed measure of the yield of each experiment, the quality, and the production density of the trees. A few experiments focused on intercropping various types of vegetation to either attract or repel certain bugs or diseases that could harm the coffee production.
\textsuperscript{164} Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
\textsuperscript{165} EMATER-MG, Certificação do Café, Mais Qualidade para os Cafés de Minas, Pamphlet, 4.
Research and Development from EPAMIG and EMATER were also fused in the Servico Nacional de Aprendizagem Rural (SENAR) program, which was developed as a hands-on workshop to teach and convey information to rural communities. SENAR coffee programs started in 1991 and became increasingly popular over time. The courses represent an excellent demonstration of how various areas of influence come together and engage the small coffee farmer in Sul de Minas. The courses were linked to various different institutions, including state intuitions EMATER, who encouraged farmers to take the courses; EPAMIG, who offered their facilities to host the courses; PRONAF credit system, who considered the SENAR program as criteria for receiving loans, and private coffee cooperatives, who encouraged members to sign up for the courses and provided course information at the local offices. An instructor working for SENAR described the primary benefit as ‘capacity building’ for small and often isolated farmers. Essentially, 80 percent of the information from the class focused on coffee technology, including chemical application, machinery, planting and harvesting, while 20 percent of the information focused on basic coffee knowledge.\(^{166}\) The perspective and education from SENAR aligned with the state’s view of coffee cultivation and the program sought the “formation of the rural professional.”\(^{167}\)

The dissolution of the IBC left the coffee sector in Sul de Minas, and the Brazilian coffee sector as a whole, significantly deregulated and lacking in coherent government leadership. Important institutions like Funcafé, EMATER and EPAMIG continued to function, but their ability to shape the coffee sector was far from the former position under the IBC. After years of uncertainty and low prices in the early 1990s, the state began to reinvest in building a national coffee structure, evident through the CDPC, small farmer credit programs, state financed coffee

\(^{166}\) SENAR instructor, interview by author, São Sebastião do Paraíso, April 27, 2011.

\(^{167}\) SENAR instructor, interview by author, São Sebastião do Paraíso, April 27, 2011.
purchasing programs, and price support. After 1999 sustained low prices and low farmer income motivated changes in government programs, which were fortified and focused on increasing social support and improving the conditions for coffee farmers. However, the expansion of state intervention in the coffee sector was shaped differently from that of the previous IBC, various programs were financed federally but functioned through Minas Gerais state institutions. The government programs largely focused on financing and advising farmers, offering low interest credit, expanding research and development in coffee, and encouraging a style of intense, mechanized production to maximize harvests and profits; all these activities engaged with institutions or producers and not the market directly. Although outside the scope of this paper, the state also invested in programs to expand domestic coffee consumption, which reflected a shift towards market protection and a movement away from complete dependence on the international market.
Chapter Two: The development of Cooperatives in Sul de Minas

The dissolution of the government coffee institutions of Brazil in 1990 left the nation’s coffee sector without any institutional stability, but that position was gradually filled by the coffee cooperatives Cooperativa Regional de Cafeicultores em Guaxupé (Cooxupé) and Cooparaiso, located in the Sul do Minas region. These two cooperatives emerged as avenues for government intervention and essential institutions for coffee producers, becoming the primary access points for producer commercialization. Over the course of the coffee crisis, the cooperatives continued to expand in both membership and the quantity of coffee received, while developing into influential institutions shaping the direction of coffee production. Furthermore, the nature of the cooperatives also changed, becoming large profit-seeking businesses, active in the coffee, credit and chemical markets. The cooperative response to the coffee crisis showed the challenge for cooperatives to balance their position as profit maximizing businesses, and as organizations representative of largely small-producer memberships. The coffee crisis helped to shape and clarify the perspectives of Cooparaiso and Cooxupé, as they became these diverse institutions. To understand the evolving perspectives of the cooperatives and their changing role in the coffee landscape, three periods in their history need to be examined: the expansion of the cooperatives and their linkage with the state before and after the IBC; the first phase of the coffee crisis and subsequent expansion of the cooperatives as the primary location for market access and commercialization; the second phase of the coffee crisis and the divergence in cooperative philosophy between Cooxupé and Cooparaiso and their relationship with small producers through coffee and politics.

The two main cooperatives in Sul de Minas were Cooxupé, the largest coffee exporting cooperative in the world, and Cooparaiso, the second largest coffee cooperative in Brazil.
Cooparaiso will be the primary focus of this paper because it was smaller and sought to engage small producers directly, but Cooxupé will be used as a reference point because of their enormous size and subsequent influence in the Brazilian and global coffee industry. After the dissolution of the IBC, producers had to seek new methods or organizations in order to commercialize their coffee harvests, as the state infrastructure had been either privatized or eliminated. Over time, the Sul de Minas coffee producers tended to join these large coffee cooperatives that were based in the area. The cooperatives themselves rapidly expanded to fill various roles that were previously performed by the IBC, illustrating the institutional overhaul of the region. Furthermore, there was a movement linked with the cooperatives to address the difficult social and economic situation of producers, but attached to this movement was a push for further modernization of coffee production.

The cooperatives in Sul de Minas were different from coffee cooperatives in other coffee producing countries where the cooperatives were often extensions of social movements and community economic development, representing a union of isolated or marginalized coffee producers frequently connected to ethical coffee movements. In Brazil, the cooperative did not focus directly on social problems, or seek to better the affluence of the community, but rather primarily focused on agribusiness, seeking the best prices and reducing costs on inputs, including those of chemicals and machinery. Furthermore, the cooperatives had a business side that sorted and created blends to improve the value of the coffee once it was purchased from the farmer. The co-ops focused on offering better prices for inputs through economies of scale, and sought to make a profit on coffee in order to expand the cooperative and generate more

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168 Cooxupé, “Recebimento de café Arabica,” Cooxupé Visão Global (Guaxupé, Minas Gerais, April 2011), 23. In 2002 Cooxupé received 3.5 million sacs of coffee, and by 2006 that number climbed to 4.4 million sacs.

business.\textsuperscript{170} There were many different institutions and organizations that purchased and exported coffee in Brazil, but in Minas Gerais, over 85 percent of the coffee produced in 2004 was produced by a cooperative member, and the cooperative system established its dominancy in Sul de Minas.\textsuperscript{171}

The development of the coffee cooperatives in Brazil was initially encouraged by the government and later supported by the IBC. The primary period of state-driven expansion was after 1958, as cooperatives were granted a small share of the export quota as established by the ICA and overseen by the IBC. At various times the government offered incentives for the formation of cooperatives, generating cycles of creation for new cooperatives. In contrast, the periods without state encouragement experienced very few new cooperatives, linking government efforts with the historical expansion of the coffee cooperative network.\textsuperscript{172} Due to incentives by the IBC and lines of credit by the federally-owned Bank of Brazil, cooperatives expanded beyond small conglomerates of large coffee producers and grew into coffee businesses. Increased independence gave the cooperatives the ability to become more selective with the coffee they purchased and to increase its quality.\textsuperscript{173} The new mandate for cooperatives coincided with the replanting and reinvigoration of coffee production in Minas Gerais. To some extent, the coffee cooperatives in Minas Gerais were linked with the expansion of production in an effort to access and modernize the agricultural system.\textsuperscript{174} The general history of cooperatives in the region illustrates governmental use of cooperatives as institutions to reach producers and process coffee. The cooperatives were not an organic social movement, but were driven by the

\begin{itemize}
\item \textsuperscript{170}Souza and Bialoskorski, “Formação das Cooperativas de Café,” 1.
\item \textsuperscript{171}Cooxupé Editorial, Folha Rural, 2004, 16.
\item \textsuperscript{172}Souza and Bialoskorski, “Formação das Cooperativas de Café,” 5.
\item \textsuperscript{173}Souza and Bialoskorski, “Formação das Cooperativas de Café,” 8.
\end{itemize}
IBC, and strategically tied to coffee production. Furthermore, the amount of coffee exported by the cooperatives was limited and governed by the IBC under the quota system, once again confirming their position under the IBC.

Cooxupé was founded in 1932 as a credit agency with twenty four members who were large coffee producers. Cooxupé was grounded in the coffee policy of the Brazilian state and developed as an institution to govern and support coffee production in the region. Cooxupé was an independent institution, but one that was facilitated and governed by the state and functioned under the regulation of the coffee agreements. In this light, its origins can be understood as both a tool of continued state control and management of the coffee sector, and also as private coffee cooperatives that functioned semi-independently. In 1957, a federal law allowed the cooperative to gain greater independence and control as a cooperative focused on coffee, with the power to receive, store, prepare and commercialize. The first activities of the cooperative were to offer warehouse storage at a small fee and to allow the members to sell their coffee at any time of the year. The addition of the role of a profit maximizing business was central to the development of Cooxupé.

By 1967 the relationship between Cooxupé and the IBC had grown closer. Agronomic engineers from the IBC were functioning through Cooxupé to assist producers. The “Renovation and Reinvigoration of Coffee” plan of the late 1960s and 1970s in Minas Gerias cemented the importance of Cooxupé in the region. The increase in coffee production came with

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179 Cooxupé, “Cooxupé, 75 Anos,” 15.
various subsidies and state support for the stocking and expansion of machinery for Cooxupé.\textsuperscript{180} The first warehouse was purchased by Cooxupé with financial support from the IBC, demonstrating their support for cooperative expansion.\textsuperscript{181} During this period, various nucleuses were opened in high density growing areas. Cooxupé encouraged the use of chemicals to enhance coffee production as the expansion of coffee ran parallel to the expansion of the cooperative. In 1982, the government passed a law granting cooperatives 8 percent of the national export quota which allowed Cooxupé to export directly.\textsuperscript{182} The actual amount of coffee exported remained only a fraction of national production, but it allowed Cooxupé to form important direct links with international buyers, which were vital for the cooperative after the IBC was dissolved.\textsuperscript{183}

Cooxupé functioned independently, but the leadership body of the cooperative was closely tied to the IBC. The leadership of Cooxupé was largely influenced by Dr. Isaac Ribeiro Ferreira Leite, a son of a large coffee producer in the early twentieth-century, who remained its sole president from 1967-1987. In 1987, the management was restructured and expanded, with Ferreira Leite continuing on in a leadership role until 2003.\textsuperscript{184} His son, Joaquim Ferreira, became the Export Director for the cooperative in 1984 and was based in Europe, where he used the IBC networks to encourage sales for the cooperative. In 1985, he became the Export Director of the IBC and, by 1987, the representative to the International Coffee Organization, becoming influential in both Brazilian coffee organizations and forging crucial personal relationships with coffee importers and roasters around the world. After the termination of the IBC, Joaquim Ferreira returned to Cooxupé as the Export director once more, but his connection to the IBC, the

\textsuperscript{180} Cooxupé, “Cooxupé, 75 Anos,” 16.
\textsuperscript{181} Chaddad and Boland, “Strategy-Structure Alignment,” 658.
\textsuperscript{182} Chaddad and Boland, “Strategy-Structure Alignment,” 659.
\textsuperscript{183} Cooxupé, “Cooxupé, 75 Anos,” 18-19.
\textsuperscript{184} Cooxupé, “Cooxupé, 75 Anos,” 27.
ICA, and international coffee importers cannot be overstated, as these links helped to facilitate a rapid expansion in Cooxupé coffee exports after 1990.185

Cooparaiso was founded in 1960 in the city of Sao Sebastao do Paraiso, by 56 producers who together constructed a warehouse in which to stock coffee. The physical geographies of the areas were very similar and typical of Sul de Minas, with roughly 80 kilometres separating Cooparaiso and Cooxupé. By 1966, the IBC was stationing agronomists at Cooparaiso to service the area. The cooperative expanded rapidly in the 1970s, building new infrastructure and various warehouses and charging a 1 percent warehouse fee on the commercialization of coffee. The expansion of infrastructure continued, including the construction of warehouses, laboratories for fertilizer, and soil analysis. Contacts were developed with producers of surrounding areas. In 1985, the IBC authorized Cooparaiso to export coffee directly, beginning in 1987. Unlike Cooxupé, Cooparaiso only began to offer rural credit to its members in 1986, as its function before this was largely concerned with the stocking of coffee. Cooparaiso was a growing organization that developed parallel to the state coffee infrastructure. The cooperative became active in national coffee politics and restructured their management in 1987, creating a number of new positions in preparation for market expansion after the demise of the IBC.

With the end of the IBC and the ICA, Cooparaiso became increasingly active in national coffee policy. The leadership attended the annual meeting of the International Coffee Organization, participated in the commission of FAEMG (an agricultural body in Minas Gerais), and contributed to ABIC’s research on national consumption. Furthermore, they were active in contributing to the National Council on Coffee (CNC) to develop a new direction for private sector coffee and a new politics for coffee throughout Brazil. Cooparaiso became locally engaged with the EPAMIG research station located in Sao Sebastião do Paraíso, linking state-

financed research and the cooperative. Furthermore, Cooparaiso entered an agreement with
EPAMIG and EMATER to continue to research and integrate that research with the diffusion of
coffee-based technology available to producers. Also in this period, Cooparaiso leadership had
close relations with the director of the IBC, including the transfer of a large warehouse in Sao
Sebastião do Paraíso. The rapid expansion of Cooparaiso through the 1980s, its integration
with state-based research institutions, and a connection with the IBC helped to portray
Cooparaiso as the stable alternative for coffee commercialization after the deregulation.
Cooparaiso’s greatest period of expansion came after the deregulation of the coffee sector, and
despite expanding into northern Sao Paulo and later into Espirito Santo, the vast majority of the
coffee that entered the cooperative was from the local Sul de Minas region, and especially from
the region surrounding Sao Sebastao do Paraiso.

Coffee Crisis and the Expansion of the Cooperatives

There was considerable political criticism of the IBC in the brief period before its closing,
but there was little confidence in whatever structure might emerge afterward. By 1990, the
large institutions in the coffee sector were aware that the IBC was coming to an end, as the state
credit supply for coffee production had begun to decline after 1987. In this context, and due
to their historical importance over the previous two decades, the cooperatives in Sul de Minas
were viable institutions, already experienced with the commercialization of coffee and in
procession of the largest amounts of coffee in the region. Importantly, from the perspective of

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186 Ilson, interview by author, São Sebastião do Paraiso, April 17, 2011.
187 Cooparaiso, “Área de Ação da Cooparaiso, Produção de Café e Produtividade das Safras,” Relatório de
Atividades 2009 (Cooparaiso: São Sebastião do Paraiso, Brazil, 2009), 13.
189 Fernando Homem de Melo, “Café Brasileiro: Não a um Novo Acordo Internacional,” Revista de Economia
the producers, both Cooxupé and Cooparaiso guaranteed that they would purchase all coffee available from the producers at any time of the year. The infrastructure that was acquired, at extremely low prices, from the IBC provided the infrastructure to purchase coffee year-round. Many other, smaller cooperatives were unable to purchase coffee year-round, as they lacked the necessary storage capacity and needed to seek out contracts to purchase coffee as well.191

Coffee cooperatives in Sul de Minas continued to support the same style of coffee cultivation that had been ongoing since the ‘green revolution’ in the 1970s. BDMG identified the coffee cooperatives as integrated with agro-industrialists and the agro-industrial style of coffee cultivation. The BDMG also identified the functions that cooperatives offered after the IBC closed; among them rural credit, commercialization and export, inputs and products, improvement of quality, and vital services.192 A major portion of cooperative income came from the sale of chemicals, including fertilizers and chemical compounds that fought coffee pests and diseases. To give evidence of the increasing importance of the cooperative as a source of chemical purchases, in 1987 Cooparaiso sold 3378 tons of fertilizer and 335 thousands kilograms of insecticides to its members, but by 1990 those numbers had risen to 18 890 and 775 thousand kilograms respectively.193 The membership also expanded during this period, but chemical sales increased at a higher rate, reflecting the increasing importance of chemicals. In the same context, Cooparaiso offered technical assistance to conduct tests on several elements of the farmers’ land or production, and advice on how they might improve their production. However,

192 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 122.
by 1993, Cooparaiso only employed 11 agronomy engineers and 3 technical agronomists, a number that would rapidly expand over the coffee crisis.\textsuperscript{194}

In 1993, Cooparaiso president Carlos Melles stressed the difficult challenge for the cooperatives in Sul de Minas after the demise of the IBC, as they became the primary organizations to support the massive coffee sector with limited state assistance.\textsuperscript{195} As coffee prices continued to decrease for the first three years after the IBC, the cooperatives began to seek partnerships with the cities, the state and the private sectors. Cooparaiso facilitated a new “Program for Renovation” for regional coffee production, which sought to bring together the various city governments of each branch of the cooperative, the Secretary of Agriculture of Minas Gerais, EMATER, EPAMIG, and coffee producers. The goal was to increase the income for the producer and to forge a plan for future coffee production, including the encouragement of denser planting to maximize the yield per hectare.\textsuperscript{196} Moreover, Cooparaiso expressed interest in the formation of new national coffee bodies, thus claiming to represent the interests of the coffee producer. Cooparaiso recognized their rapid expansion, identifying that each year the cooperative was processing and exporting more coffee, selling more agro-toxins and surviving a “tumultuous” period of political “abandonment.”\textsuperscript{197}

The first coffee price crisis after 1990 saw a period of market irregularity, oversupply on the international market, and an overall lack of information in the Brazilian coffee sector. Producers joined cooperatives and the price of coffee was certainly lower than it had been under the ICA, but the producers did not have to pay the state ‘cambial’ to finance the IBC.\textsuperscript{198}

\textsuperscript{195} Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 122.
\textsuperscript{196} Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 125.
However, price changes, lack of a state tax, and various cooperative-imposed costs obviated any clear change, although the cooperatives established quality as an important and determining element. Under the IBC, there was an established floor purchasing price and, despite various, often token programs by the IBC to improve producer quality, producers were not overly-concerned with the quality of their coffee.\textsuperscript{199} The cooperatives developed a similar policy of guaranteeing the full purchase from members, but they used the New York Stock Exchange (the Arabica coffee trading market) price as a point of reference and assessed the quality of all coffee that entered the door of the producer. In this regard, the issue of coffee quality shifted to the forefront for coffee producers and the cooperative. If the quality was better they would receive a higher price, but if the quality was poor, the price dropped drastically.\textsuperscript{200}

The first period of the coffee crisis experienced a continued expansion of membership in Cooparaiso as producers turned to the cooperatives to market their coffee, but the overall rate of new membership began to slows as the cooperative grew at a rate of over 10 percent through most of the 1980s. By 1993, the vast majority of the members in the cooperative were small producers.\textsuperscript{201} Over the early 1990s, the cooperative membership expanded, but the ratio between smaller and larger producers remained relatively stable. In a general sense, small producers totalled over 80 percent of the cooperative membership and produced roughly 25 percent of the coffee. By 1994, 85 percent of Cooparaiso coffee producers possessed less than 20 hectares of coffee; the remaining 20 percent of the medium and large producers contributed 75 percent of

\textsuperscript{199} Various interviews with cooperative employees and coffee producers indicated the increasing emphasis on coffee quality after 1990.
\textsuperscript{200} Daniel Pereira, Cooparaiso quality classifier, interview by author, São Sebastião do Paraíso, Brazil, April 18, 2011.
the coffee.202 The number of large and medium producers with over 50 hectares increased from 124 in 1992 to 138 in 1994; the number of small producers with less than 10 hectares increased from 1688 in 1992 to 1871 in 1994. These numbers indicate that the small producers were mostly transient at that time in their search for a method to access the market. Furthermore, the small statistical change of large producers suggests that they had already decided their method of exportation before this period, or were less reliant on the cooperatives as a mechanism for commercialization.203

Cooperative Growth and the Development of Technical Assistance

The coffee industry was slowly adjusting to the post-IBC period and the cooperatives continued to grow in both membership and coffee purchases before the 1994 frosts and the 1995 drought had reached the area. The years 1994-1995 divided the coffee landscape, because the frost destroyed a large part of the harvest for some coffee producers, who also suffered a year of lost production and the loss of coffee trees and future production. This coffee shortage also drove up the price of coffee for those producers untouched by the frost. Over all, it could be described as a period of crisis for most, as Cooparaiso trends indicate, with the cooperative receiving over 350 000 sacs of coffee in 1992, 1993 and 1994 and only 178 000 sacs of coffee in 1995, reflecting the impact of the frost in the area. However, the widespread frost caused a rise in the price of coffee on the New York Stock Exchange and a rapid rise in the ‘futures’ market, which increased from approximately USD $.70 per pound in January 1994, to $2.50 per pound in

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202 The statistics in this period are limited because the Cooparaiso Annual Reports from 1990 and 1991 used a different system of landholder-ship, but the information available from 1992-1994 helps to illustrate who was joining the cooperative.

January 1995. Unlike the disastrous 1974-5 frost in Brazil, which contributed to a large-scale geographic relocation of coffee production, the 1994 frost and 1995 drought typically resulted in replanting efforts, and the resulting higher prices were a cause for market optimism, particularly in Sul de Minas where coffee culture permeated.

The environmental events during the mid 1990s contributed toward the ongoing transformation process in Sul de Minas coffee production. Producers who reinvested in coffee production typically followed the recommendations of the cooperatives with a commitment to dense planting, mechanical harvesting, and the use of chemicals for fertilizer and defences. The period was described as one of ‘coffee recuperation’ by the cooperatives, who pointed to the inflated market prices and encouraged members to reinvest in coffee production, including those who were not affected by the frost. In reaction to the frost, EPAMIG published a pamphlet that encouraged farmers to avoid further risk from frost and coffee diseases by following the recommendations of the research institution. If the recommendations were followed, it suggested, the coffee producers would have an easier recuperation time and lower costs, claiming that “with technology, the solution exists.”

Cooparaiso also issued a document for their members that discussed the frost and its impact on coffee production in the region, providing instructions on how to treat coffee plants damaged by frost, including strategies on how to stump, or reduce, the branches, an operation designed to bring the coffee bush back to production as quickly as possible. The cooperative outlined the proper amounts of chemicals that farmers should apply to recover their production, as well as recommendations for

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204 Stefano Ponte, “Behind the Coffee Crisis” Economic and Political Weekly November 24, 2011, 4413. The price of arabica coffee on the NYSE spiked USD $4.7 immediately after the July 10, 1994 frost.
205 Federação da Agricultura do Estado de Minas Gerais, Diagnóstico da Caficultura em Minas Gerais (Sebrae: Minas Gerais, 1996), 3.
207 Cooparaiso e EPAMIG, Recuperação dos Cafeeiros Sob Geada (EPAMIG: Belo Horizonte, Agosto 1994), 18
intercropping in areas highly vulnerable to frosts. These documents maintained a focus on maximizing coffee production, ensuring crop placement that would allow mechanical harvesters, and the application of chemicals to control disease and increase output. Importantly, both the state and the cooperative were advising a similar method of coffee production.

Both cooperatives expanded outreach programs to stress methods of production that maximize coffee quality, and their view of ‘best production’. Cooperatives stressed the need for improved quality with direct education for the producers, driven mainly through informative courses and distributed pamphlets. Cooxupé stressed a “Tips for Quality” program while Cooparaiso held a course on” Cooparaiso coffee quality”. In 1995, Cooparaiso developed a competition for quality where members competed against one another for best quality, which was encouraged through technical advice and various courses at the cooperative, including a course on the best control of diseases and pests. Furthermore, the cooperative graded all of the coffee that entered the cooperative with both visual tests for the percentage of defects and cupping, to determine the value. A Cooparaiso technical assistant stressed the importance of determining quality, claiming that poor cupping and inaccurate estimation could cost the cooperative significant losses. Increasing quality was important for the cooperative because, over the course of the coffee crisis low quality coffee gained little value for producers, but for cooperatives it was nearly worthless and difficult to either blend or sell as the global market demanded a high quality product. Both cooperatives offered detailed information for farmers to follow in order to raise the quality of their coffee, including time of harvest, post-harvest production, proper packaging, and means of transportation to the cooperative as quickly as

209 Daniel Pereira, Cooparaiso quality classifier, interview by author, São Sebastião do Paraíso, Brazil, April 18, 2011.
210 Daniel Pereira, Cooparaiso quality classifier, interview by author, São Sebastião do Paraíso, Brazil, April 18, 2011.
possible. The cooperatives stressed very precise times and temperatures for different stages of processing, and the importance of machines in the post-harvest period. The suggestions of the cooperative, particularly during the period of relative stability, illustrate the continued focus on mechanization and technification in coffee harvesting and the growing importance of high quality coffee.

The style of production focused on intensification and the use of chemicals became more popular during the period after the frosts, particularly regarding the producers who accepted technical assistance. Cooparaiso estimated that by 1998 the average production per hectare had decreased (due to the frosts) but the recovery was telling; in 1995 production was at 4.24 sacs per hectare, which increased to 10.7 in 1996, 16 in 1997 and 18 sacs per hectare by 1998. These numbers represent Cooparaiso as a whole, but the members who accepted and followed the technical assistance program from the cooperative were producing 23.8 sacs per hectare in 1999.

To contextualize the expansion of high density coffee production and chemical application, both trends were evident in Cooparaiso’s chemical sales. In the years after the frost chemical sales were at their highest, particularly defences, which are necessary for high density coffee. From 1992 to 1999, Cooparaiso chemical sales increased by 230 percent, reaching nearly USD $22 million sold to members in 1999. Understandably, the cooperative expanded during this period, but the sale of inputs was at a much higher rate and more producers were relying on their use.

The prominence and influence of the cooperatives continued to expand as independent institutions, but they were also connected to state programs. Cooxupé and Cooparaiso developed

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211 Cooxupé, Dicas de Qualidade: Recomendações que Visam a Melhor Qualidade para o Seu Cafe (2000), 2.
212 Cooxupé, Dicas de Qualidade: Recomendações que Visam a Melhor Qualidade para o Seu Cafe (2000), 3-5.
and expanded technical assistance programs that were connected with EMATER and EPAMIG. However, credit was still limited and cooperatives encouraged the state in this sector. In 1994, Cooparaiso president and large-scale coffee producer Carlos Melles was elected as the regional federal deputy, a political position that had influence over the agricultural sector. The cooperative became increasingly politically active and influential. Melles initiated various programs, or congresses, to encourage the re-engagement of the state in the coffee sector, to secure lines of credit for coffee production and to form consulting bodies within Cooparaiso to engage with the political structure and future direction of the Funcafé program.\(^{216}\)

During this ‘pause’, the government re-emerged in the area of rural credit by stabilizing Funcafé and creating the PRONAF small-farmer credit program. The cooperatives had encouraged the state to strengthen its role in the coffee sector, but also wanted the state to remain a political body that did not directly intervene in the coffee markets. The state responded to the requests of the cooperatives, particularly through government programs that were linked with, or operated through, the cooperatives. The cooperatives became the avenue for various forms of intervention, developing into the locations where farmers could apply for state credit programs, including Funcafé and PRONAF (although there were alternative avenues for application, the cooperative was one of the easiest). Furthermore, regarding PRONAF loans, producers would have a better opportunity of being approved for a loan if they had taken various courses offered through the cooperative, further linking the credit systems with the cooperative system in the region.\(^{217}\) However, much of the relationship between the state and the cooperatives focused on economic issues and the expansion of the business aspect, neither of which were connected with social issues or problems that faced the small producers. The annual reports focused on the


\(^{217}\) João, manager of EMATER, interview by author, São Sebastião do Paraíso location, April 25, 2011.
commercialization of chemicals, the buying and selling of coffee and the technical assistance programs designed to increase yield. But growing connections with the government helped the cooperatives develop reputations in their regions of being stable, credible and secure. These factors certainly contributed to the expansion of both Cooxupé and Cooparaiso.

The period from 1995-1998 experienced relatively high coffee prices and coincided with the physical expansion of Cooparaisio into the surrounding regions, opening their first nucleus in 1994. However, the growth in membership of Cooparaiso was relatively inactive during this period. Membership increased 10 percent in 1995, but then declined or stagnated for three years, the longest period of non-growth since the early 1970s. The small reduction in membership during a period of higher prices suggests a few possible insights into the relationships between Cooparaiso, coffee producers and the market. Perhaps the earlier frosts had caused many farmers to exit coffee production and thus the cooperative, or perhaps producers had found alternative networks to sell their coffee at better prices. The trend sharply changed, however, in 1999 because, although Cooparaiso had lost 15 percent of its members in 1998 when coffee prices were at their peak, as the price of coffee rapidly declined the cooperative gained 20 percent new memberships, suggesting a link between lower coffee prices and producer-reliance on the cooperatives. The movement of a high number of members in and out of the co-op also indicates that Cooparaiso was viewed as an economic relationship, and farmers pragmatically sought the best prices for their coffee.

The frosts occurred at a relatively precarious period for coffee producers, because while the market was in crisis after the dissolution of the IBC there was optimism that the initial crisis

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218 Claudia Aparecida de Campos, Rosemar Martins Luna e Luiz Marcelo Antoniali, Análise do Planejamento Estratégico de Marketing de uma Cooperativa de Café (Porto Seguro, BA, Brazil, 2003), 523.
219 Ilson, interview by author, São Sebastião do Paraíso, April 17, 2011.
221 Relative term for the period from 1989-2006.
was the market ‘correcting’ itself, and that the higher prices were a reflection of that correction. Although it is difficult to accurately estimate the motivation of farmers in this period, there was certainly some belief that the coffee market would be better without the IBC or the ICA and that the prices would rise, as coffee was a naturally prosperous crop. The price changes also demonstrate a factor in the neo-liberalization of the crop, as a crisis could drive the price in both directions at times, but overall the movement of coffee prices was certainly downward, although there were still periods of perceived affluence for some.

Cooperative Expansion and Shifting Perspectives

The period of elevated coffee prices began to decline after reaching its highest point in 1997-1998; the elevated prices and encouragement of the state and cooperatives resulted in a relatively long period of over-production and extremely low international coffee prices. This period experienced lower prices than those of the early 1990s, and lasted for a longer period of time. The reinvestment and reinvigoration programs, propagated through the government and the cooperatives, resulted in a large increase in coffee production in both Sul de Minas and in most coffee producing regions of Brazil. The cyclical variation of coffee production makes it difficult to identify specific changes in production levels, but a generalization helps to explain the situation; total Brazilian production in 1995 was 18 million sacs, by 1996 it had jumped to 29000, increasing again in 1998 to 37000 and in 1999 to 47000. These increases, particularly the two consecutive increases in 1998 and 1999, are rare because of the bi-annual production cycle in Arabica coffee, but they identify the increase in supply after the ‘rejuvenation’

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222 Cooparaiso, “A Real Situatcao da Cafeicultura (2005), 1
223 Increased production in this period occured in various other international coffee producing regions.
investments had entered production. Overall, Brazilian production averaged a robust 38 million
sacs per year from 2001-2008.225

The cooperative statistics reflect the increased production of coffee and the continued
importance of the cooperative as a method for producers to sell their product. As the prices
dropped, the cooperatives received more coffee, increased exports and expanded their
membership despite declining market prices.226 In 2002, Cooparaiso received double the amount
of coffee received in 1998 and also experienced a steady increase in membership, which
expanded to 3259 members by 2000, and 4503 members by 2005.227 In the same period,
Cooxupé rapidly expanded their coffee received and coffee directly exported. Cooxupé exports
gradually increased throughout the 1990s, but by 2000 they experienced a massive jump, having
sold and exported over 1.4 million sacs in 2004 (a 34 percent increase in exports from 2003),
firmly establishing the coffee cooperative as the largest in the world.228 Cooxupé also
experienced a steady expansion of membership, increasing from 5700 members in 1997 to 8730
members by 2004.229

The second phase of the coffee crisis saw the cooperatives expand in membership and
rapidly increase in coffee received but the low prices created a more competitive market and
lower profits for the cooperatives. Cooparaisio data indicates that on average, from 1999 to 2006
producer operated at a net loss between 15-20 percent.230 These statistics incorporated the
fluctuating exchange rates between the US dollar and the Brazilian Real over time.231 The price
of coffee per sac also fluctuated more than the cost of inputs, further complicating the value of

226 Evandro Scheidt Ninaout and Marcos Antonio Matos, “Panorama do Cooperativismo no Brazil: Censo,
228 Cooxupé, Relatório de Gestão e Demonstrações Financeiras (2004), 4.
230 Cooparaiso, A Cafeicultura Situação Atual (2008), 8.
231 Cooparaiso, A Cafeicultura Situação Atual (2008), 8.
coffee during the crisis. Cooparaiso reported that although average production costs did decline in the period of low coffee prices, perhaps producers applied fewer chemicals or limited costs in harvesting, which would also create a downward cycle of reducing quality and therefore further reduce the price received by producers.\textsuperscript{232} However, in 1999 the price of coffee was roughly USD $100 per sac and the costs were only slightly below that, around USD $95. By 2002, the price of coffee fell over 50 percent, to USD $43.00 while costs only fell to around USD $70.00.\textsuperscript{233} These two factors are both independent and connected because inputs were essential for most producers and the price of inputs, particularly chemicals, was not linked to the price of coffee, but rather to its own market factors. That independence is demonstrated by the cost of fertilizers sold through Cooparaiso. The graph below demonstrates that the price of fertilizers, the most frequently purchased input, was lower during the coffee crisis but the relative price in ‘sacs of coffee’ was much higher, further exasperating the situation for producers who were committed to intensive, chemical based coffee production.\textsuperscript{234}

Exchange rate between coffee and fertilizer:

\textsuperscript{232} This information supports Rice’s claim that there was a downward cycle between lower prices and lower quality that created a negative feedback loop of lower income and quality.
\textsuperscript{233} Cooparaiso, \textit{A Cafeicultura Situação Atual} (2008), 21.
\textsuperscript{234} Cooparaiso, \textit{A Cafeicultura Situação Atual} (2008), 22.
Chemicals were essential for most coffee producers in Sul de Minas, and the cooperatives became the primary point of purchase for chemicals for a number of reasons. Cooperatives became large institutions that could use economies of scale to garner the best prices from international companies, thus being able to offer good prices to members, and guarantee a stock of inputs whenever the members needed them. Also, the cooperatives were one of the few reliable locations for producers to purchase legitimate chemicals, as smaller chemical venders would tamper with the product or outright falsify, and for producers these counterfeit chemicals were very hard to detect and potentially endangered an entire crop season.\textsuperscript{235} As the primary point of chemical sales, both Cooxupé and Cooparaiso accepted coffee in exchange for inputs. The cooperatives also developed large chemical fairs which operated between August-October, near the end of the year’s harvest, which featured various international chemical companies, offered slightly lower prices, and were targeted toward small coffee producers.\textsuperscript{236}

Cooparaiso and Cooxupé developed increasingly modern methods of communicating with their members, including detailed internal journals that became important points of access.

\textsuperscript{235} Interviews by author, various producers attested to the existence of fake chemical sales, and the potential hazard for the coffee crops.

\textsuperscript{236} Ilson, interview by author, São Sebastião do Paraíso, April 18, 2011.
to information. The Cooxupé journal, Folha Rural, began as a small bulletin that was distributed to members to inform them of price changes and cooperative decisions. By 1990, the newsletter began to resemble a trade magazine, using professional journalists and financing the production by advertising various chemicals and fertilizers. The journal also became an important source of internal management, as cooperative and state election candidates were featured in Folha Rural, indicating their perspectives on the future of the cooperative, but also to support a particular political allegiance of the cooperative. In this manner, through Folha Rural, Cooxupé strongly endorsed Roberto Rodrigues to become the Minister of Agriculture in the 2002 Lula government. The cooperatives developed a politically-motivated perspective that was often expressed through their monthly journals. While a small portion of the journals focused on the social and economic issues of the members, contributing journalists typically focused on the coffee market, the prices of technology, and methods to improve quality. In Folha Rural issues from 2002-2003, over 50 percent of the articles focused on the market or technology, while only 9 percent focused on diversification, and just under 1 percent on agricultural reform. The development of the journals represented two parallel objectives: to inform members and shape their style of production within the cooperative and to express influence in national, state and local politics.

After the 1999 crisis, the direction and perspective of the two cooperatives began to change and diverge. As Cooxupé grew it increasingly became an economic and political force; the largest coffee cooperative in the world with the force to become a significant political player in a democratic country. In doing so, Cooxupé managed to gain extensive access to the Funcafé

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240 Maio, “Comunicação Nas Cooperativas de Café,” 143.
program for its members. Funcafé was important for members because the credit allowed them to finance stocking fees and sell their coffee at a different time of the year, when coffee prices would be much higher.\textsuperscript{241} However, the focus remained primarily on purchasing coffee from producers and exporting, and selling chemicals and providing technical assistance to improve yield and quality. The cooperative established a guideline suggesting the best practices to manage and make profits, which included following technical advice, renovating coffee plants, maximizing property, and being rigorous with technical application and information about the market; all the advice sought to infuse coffee cultivation with a business approach to cultivation.\textsuperscript{242}

To some extent, Cooxupé simplified its aims as it grew, choosing not to sell machinery, tools or enter markets to rent equipment to members. Cooxupé continued to focus on business and expansion, and did so at a rapid rate, purchasing 2.5 million sacs of coffee in 2000, 3.5 million in 2002, and 4.4 million in 2006.\textsuperscript{243} The international connections enabled Cooxupé to form a number of important relationships with international companies, including Starbucks, Nescafe, and UTZ Certified, opening up various new opportunities for exports.\textsuperscript{244} After 2000 Cooxupé created a few programs that focused on outreach to producers. Typically, the information was technically oriented, dealing with issues regarding harvest management, including a booklet on processing coffee cherries after they have been shelled, handling and storing chemicals, basic rules for using drying machines and growing quality coffee.\textsuperscript{245} However, there were a few attempts to engage in other issues, including the “Live Well”

\textsuperscript{241} Cooxupé, Relatório de Gestão e Demonstrações Financeiras (2004), 4.
\textsuperscript{242} Cooxupé, As 10 Melhores Práticas de Gestão Receita do Sucesso.
\textsuperscript{243} Cooxupé, Relatório de Gestão e Demonstrações Financeiras (2011), 4.
\textsuperscript{244} Cooxupé, Relatório de Gestão e Demonstrações Financeiras (2011), 21.
\textsuperscript{245} Cooxupé, Recomendações Básicas Para A Produção de um Café de Qualidade (2001); Cooxupé, Produção de Café Cereja Descascado (2000); Cooxupe, Recomendacoes ao agricultor (2001).
program, aimed to develop awareness of ‘social and environmental’ issues. Conversely, the program was difficult to take seriously as it focused on the use of simple cartoons to convey complicated information and identify government-required, protected natural areas and other laws regulating agricultural cultivation. The Live Well program was also sponsored by the BASF chemical company and maintained the same perspective as Cooxupé in cultivating coffee.246

Unlike Cooxupé, after 2000 Cooparaiso cultivated a new culture that focused on smaller producers and aimed to develop programs to support coffee growers and communities who were suffering due to the sustained low coffee prices. The makeup of Cooparaiso membership had remained similar, as slightly over 70 percent were small farmers, contributing roughly 16 percent of the coffee in the cooperative. Cooparaiso focused on forging close ties with the PRONAF credit system, in order to help facilitate access to the federal credit system for small farmers.247 The connection with PRONAF became very important to the image of Cooparaiso, as did the claim by the cooperative and its president, Melles, that it supported the small producer throughout the coffee crisis. Watson and Achinelli correctly noted that PRONAF loans were better accessed by members in larger cooperatives due to the lengthy bureaucratic process, but access also depended upon the cooperative. Cooxupé left the process up to its members but Cooparaiso embraced the program as the representative of the cooperative.248 Cooparaiso managed to maintain over 70 percent of its membership as small producers, gaining the title of ‘pronafiano’249 in 2011, becoming the first and only coffee cooperative with the title.250 By

246 Cooxupé, Cafeicultura Sustentável e Regularização Ambiental (no date); Cooxupe, Vamos Proteger as Nascentes? (no date); Cooxupé, Manual da Cafecultura Sustentável Cooxupé (2003).
249 The title essentially ensured greater access for cooperative members to the fund and also connected the cooperative to the rural social and economic livelihoods.
250 By
embracing the PRONAF program in the cooperative, Cooparaiso also developed a close relationship with EMATER because, although the producers had to apply for the initial process at EMATER, it was producer membership and participation in cooperative programs that helped ensure the loan process. Cooparaiso developed more direct relationships with small producers, specifically regarding issues of incomes and producer livelihoods. Cooparaiso expanded community engagement programs through general education courses in 2004, with programs to improve quality and also held various meetings for smaller groups in the cooperative, including women and youth.251

The president of Cooparaiso remained Carlos Melles, who was elected for a third term in 2002 as a Federal Deputy and, by 2003, had begun to solicit government bodies for a new state plan of support for the coffee market.252 Melles sought to bring attention to the difficult situation for coffee producers in the publication ‘In the Coffee Crisis, Where Is the Brazilian Government?’ which traced the costs and returns for coffee in 2000 and highlighted the difficult fact that most producers had higher costs than income.253 In addition, the cooperative hosted the “new challenges and opportunities” meeting in 2005 that was attended by the Minister of Agriculture and sought, in part, to address the prices for coffee producers.254 While these political actions may be the result of a politician attempting to appeal to the surrounding electorate, he was also the president of Cooparaiso and continued to challenge the government to

250 No Author, “Cooparaiso Inova e Torna-se a Primeira Cooperativa Pronafiana do País no Setor Café.” Revista Cafeicultura (Jan. 4, 2011): 1-3. The actual ‘pronafiana’ title was only granted in 2011 but Cooparaiso historically maintained a close relationship with PRONAF and the efforts to gain the title became initiatives in the cooperative after 1999. The intentional connection with PRONAF indicated a shift in Cooparaiso toward supporting the small producer and linking the identity of the cooperative with them.
become more active in the coffee sector. Whatever Melles’ motivations actually were, to some extent his actions helped to create greater access to credit, and politicized the impact of the crisis on coffee producers.

There were limitations in the political and social activity of the cooperatives, and their level of commitment reflected their relationship with members who were small producers. Cooxupé was much more hesitant to join social movements, but Cooparaiso participated in a few rural protests to demonstrate the harmful impact of the coffee crisis and a call for change. The various bodies of interest became increasingly concerned about the continuously low prices of coffee and the S.O.S movement, which was organized through small producer groups, and later supported by coffee institutions. The movement sought to gain greater attention to the plight of coffee producers. The cooperative role in the movement helps to further demonstrate the difference between the two main cooperatives in Sul de Minas, but it should be stressed that the overall role of the cooperatives in the ‘S.O.S march for coffee” remained rather limited, and merely one voice among many institutions. Cooxupé sent representatives to the S.O.S. march, but did not sign the manifesto or participate in the ‘proper’ movement. Cooparaiso was much more active in the movement, signing the manifesto, encouraging members to sign up and organizing the transportation of members to the city of Varginha, where the walk was held. Cooparaíso activities further demonstrate the focus of the cooperative on the situation of the small producer, which aligned it with many other smaller cooperatives.

The cooperatives were important drivers in the mechanization and modernization of the coffee landscape of Sul de Minas during the coffee crisis. Sul de Minas, unlike the Cerrado to the north, is a region of ‘mountain coffee’ and the geography can prohibit farms from growing easily harvestable coffee lines that are accessible to large tractors. Many producers of the region

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focused on adapting areas to the style of production that could be harvested by machines. Different types of machines emerged that could adapt to the mountain style of coffee, which typically required harvesting by hand, but they offered varying levels of efficiency. The modernization movement was encouraged to reduce costs, harvest exactly when it was appropriate with only one harvest per year (as opposed to 3-4 passes through the coffee bushes by hand) and to rely on a more scientific approach to implement a “vision of productive, efficient and well managed” coffee farms. In continued efforts at modernization, Cooparaiso sold machines to members at the local stores and stressed the savings that the mechanical harvesting could provide, particularly with the rise in labour costs.

As the cooperatives grew, they also expanded their staff of agronomical technicians and opened up sales and service centres at various nucleuses, while extending complicated technology for farmers to assess and control their coffee production. Cooparaiso constructed a laboratory for the analysis of soil, leaves, and fertilizers, which was offered at no cost to small producers who fulfilled their loyalty program. Cooxupé developed similar services but charged for each requested analysis. Furthermore, both cooperatives created curriculums on proper harvesting techniques and methods to reduce the cost of harvesting while maintaining quality. The expansion of technology also included satellite analysis of the producer’s landholding, which identified state regulated areas of protection, and suggested the maximum amount of land that could be used for coffee cultivation while still abiding by the law of Area of Environmental Protection (APA). A “Mapear” project used satellite information to estimate the number of plants, spacing, and variety that existed, and to estimate what could be achieved

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257 Ilson, interview by author, São Sebastião do Paraíso, April 17, 2011. There were limitations on the number of times that the producer could access the laboratory and use the services.
258 Federal Law, n. 6.902, *Area de Proteção Ambiental*. Essentially, each farm must maintain a percentage of natural, unfarmed land, and cannot develop that region for commerce.
on a ‘model’ farm under the advice of their system. The cooperatives became both the motivators of modernization and the providers of very complicated technology, all of which seemed designed to increase yield and quality.

In 1991, the federal government created the SENAR program to reach rural agricultural producers with practical knowledge, but it was not operable until 1993, and the participation was dismal in the early years. By 2001, the cooperatives combined with the FAEMG, EPAMIG/EMATER research institutions to expand SENAR MINAS to include environmental concerns, and designed a program for small coffee producers that became operational beyond 2001. SENAR developed programs for various agricultural crops, but its focus in Sul de Minas was almost exclusively on coffee. The program was functionally important as it brought together the primary groups and institutions in coffee cultivation: the state and research groups, the cooperatives, city governance, and rural syndicates or producer organizations. SENAR provided different courses that promoted professionalization of the rural farmer and aimed to improve the social and economic situation for producers.

The SENAR courses operated through the cooperatives, where farmers could sign up for a particular course and attend them at the EPAMIG locations, such as the location at Sao Sebastao do Paraisio. The cooperatives also participated directly in the courses, often leading sessions for chemical application and using land owned by the co-op for such purposes. An agronomist working for SENAR stressed the importance of the program for coffee farmers,

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259 Cooxupé, Assistência Tecnológica (2009), 13; Joaquin Goulart de Andrade, interview by author, Guaxupé, Brazil, April 28, 2011.
261 Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
because through the program farmers were given an understanding of the technology being sold to them, as they typically lacked the capacity to use new technology or chemicals effectively. Furthermore, the focus of the course was divided between 80 percent technical knowledge and 20 percent basic knowledge, contributing important education towards shaping a modern coffee sector, and creating the formation of “the rural professional.”

The SENAR program was an important institutional link between bodies of interest and, by forging a strong link between the state, private institutions and small coffee producers, the program greatly assisted those small producers in gaining access to PRONAF. SENAR courses also became essential for the Minas Certification program to be recognized as having fulfilled its obligations. Considering these factors, producer participation in the program increased over time and SENAR became a fundamental institution.

The cooperatives became an important source of market information, as they distributed the market prices through newsletters, radio and television and, later, internet updates. The cooperatives stressed the importance of not just growing quality coffee, but also of ensuring that the quality was maintained throughout the harvest, the drying, the transport and the stocking stages. The cooperatives offered members a price based on the international market price, but the price was a placeholder for “Santos 4” quality and, if the quality of their product was above or below the mark, the producer would receive a relative price. Lower quality coffee became increasingly difficult to sell throughout the coffee crisis, as there was an oversupply; producers who did not grow quality coffee were given very poor prices and often either exited the market altogether, or redesigned their practices as suggested by the cooperative. The main tool used by the cooperatives was technical assistance through employed agronomists, who travelled to

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263 SENAR instructor, interview by author, São Sebastião do Paraíso, April 27, 2011.
264 José Reis, interview by author, São Sebastião do Paraíso, Brazil, April 19, 2011.
producer farms, held group meetings in order to address problems, and suggested methods to improve production.\textsuperscript{265}

To ensure the continued success of their business, the cooperatives developed complicated ‘faithfulness’ systems for members, designed to ensure that they would retain members in the cooperative for a number of years and also commercialize their entire harvest there. Cooparaiso refined their system in 2005, as shown in the graph below, developing a ‘point’ system, but maintaining a policy whereby producers could only fully access the program after 4 years of continued membership and annual coffee deposits.\textsuperscript{266} The system functioned whereby the cooperative estimated a producer’s harvest, and then granted points based on the higher percentage of the harvest deposited at the cooperative, with additional points awarded if a larger percentage of the coffee deposited was immediately commercialized. Also, the system compared chemicals purchased by a member with Cooparaiso’s estimated chemical use, and awarded further points if the producer had used more inputs than predicted. Lastly, if the producer repaid their line of credit, they were rewarded points as well. The producer could use their collected points at the cooperative store, typically for the purchase of chemicals and other fees owed to the cooperative, reducing the costs of inputs to the producer.

\textsuperscript{265} Cooxupé, \textit{Assistência Tecnológica} (2009), 7; Cooparaiso, \textit{Cooparaiso Annual Report} (2006), 41.
\textsuperscript{266} Ilson, interview by author, São Sebastião do Paraíso, April 18, 2011.
In 1996, Cooxupé developed a similar system that focused on awarding bonus points based on how much coffee the producer stocked, resulting in the bigger producers obtaining very large bonuses which could be used as ‘virtual money’. The system was implemented in 1997, and the points could be spent during specific periods when the cooperative sold specific chemicals at a reduced price. The size of Cooxupé, and its subsequent purchasing power, resulted in such large orders that the logistics became excessively complicated. The cooperative developed specific periods for each chemical that coincided with the coffee production cycle and bulk chemical purchases. However, Cooxupé’s system allowed a full year for the return of payment and did not penalize or subtract points if members chose not to stock coffee, which became increasingly important due to the bi-annual cycle of small and large coffee harvests. Cooxupé still maintained control over the specific periods in which members could use their ‘virtual money,’ and chemicals offered outside these periods could be very expensive. However, despite the incentives for producers to remain loyal, including the program to trade

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268 Jose Geraldo Olyntho Junqueira Filho, Cooxupe Comercial Sales, interview by author, Guaxupe, Brazil, April 27, 2011.
270 Jose Geraldo Olyntho Junqueira Filho, Cooxupé Comercial Sales, interview by author, Guaxupe, Brazil, April 27, 2011.
coffee for inputs and membership services, both cooperatives expressed surprise that more coffee farmers did not have a ‘cooperative’ spirit and embrace the membership systems. \(^{271}\)

The cycle of production became the cornerstone for the cooperatives and the systems of membership retention, input sales, and credit. The cooperatives primary period for the purchase of chemicals ran parallel to the harvest season, and the state-financed credit cycle operated on this timeline as well, collecting payment from the previous year and offering new credit after the harvest. \(^{272}\) Fundamentally, the system was logical, because coffee producers would be able to purchase chemicals and repay their loans with their coffee harvest, and begin the cycle again. However, the system also ensured that the cooperatives would gain the largest margin from the producers because the annual price of coffee operated on a cycle, typically reaching a low point directly after the harvest, which was in September or October. In September of 2006, the price the cooperative paid to the producers for “type 6” coffee was R $229 per sac, and by December the price had risen to R $284 per sac; similarly, in 2007, the price in September was R $220 and R $260 by January 2008. \(^{273}\) While the average farmer was still operating at a loss, the difference between these numbers would significantly help or hurt a producer’s income.

The price and credit cycles reveal that the producers who had to commercialize their coffee immediately were disadvantaged because of the changes in the annual market price, but producers who could hold onto their coffee received a better price later in the year. At this point it is important to note that the cooperatives encouraged and rewarded producers to sell their coffee directly after the harvest, and that the state loan cycle aligned with the production cycle, whereby producers typically had to sell immediately to repay the line of credit. In addition, from

\(^{271}\) Jose Geraldo Olyntho Junqueira Filho, Cooxupé Commercial Sales, interview by author, Guaxupe, Brazil, April 27, 2011.
\(^{272}\) Ministério da Agricultura, Pecuária e Abastecimento, Fundo de Defesa da Economia Cafeeira, Relatório de Atividades (Brasilia: Mapa/ACS, 2009), 21.
\(^{273}\) Cooparaíso, Evolução dos preços pagos ao produtor entre julho/06 e fevereiro/07 (2007).
2001 to 2008, Cooparaiso states that the average cost of cultivating coffee in this period remained above producer income, suggesting a downward cycle for producers, but particularly for producers who commercialized their coffee directly after the harvest (roughly 80 percent at Cooparaiso).\textsuperscript{274}

Cooperatives became increasingly interested in investing in the coffee futures market so that they could ensure that their coffee sales would be secure and that prices would be more predictable. Due to this, the cooperatives had to balance a precarious position between business interests and the will of the members. Cooxupé moved away from producer-programs and operated like a corporation, seeking to maximize profit. Cooparaiso operated in a similar fashion, but to a much lesser extent. The cooperative still sought to operate as a profit maximizing business, but it remained concerned with the smaller members, thus allowing it to achieve the ‘pronafiana’ status, which also helped the image of politician and cooperative president Carlos Melles. However, the cooperatives used profits to expand the business, to expand the leadership structure, and expand the agronomy divisions. There is no evidence that the two cooperatives redistributed the profits to the members, but rather used the money for further investments and futures contracts. This study was unable to gain a direct account of where the cooperative profits went, and most interviews were abruptly ended after questions related to this topic were put forth. One particularly concerning element of these two dominant coffee cooperatives was the surprising lack of transparency regarding the income of the leading members of the cooperatives, or information indicating how incomes, salaries, or profits were decided. The cooperatives sought to demonstrate a democratic structure regarding the leadership

\textsuperscript{274} Ilson, interview by author, Sao Sebastao do Paraiso, April 19, 2011.
of the institutions, but there seems to have been limitations to the control of the members over profits, and enormous speculation as to where the actual power lied within the cooperatives.275

The cooperatives were nurtured by the state structure and supported as important institutions within the Brazilian coffee industry for a lengthy period under the IBC. With the destruction of the ICA quota system and the IBC, the cooperatives rapidly expanded in both membership and responsibility and became the primary institutions for the state, and consistent and reliable options for farmers in Sul de Minas to ensure the commercialization of their coffee. Within this context, the cooperatives became important players in influencing and encouraging a particular style of intense coffee cultivation through dense planting, chemical use, and modernization. In doing so, they became one of the only reliable sources for chemicals and technical advice. Prado de Souza and Bialoskorski Neto correctly argue that the cooperatives were independent organizations seeking to gain power in the coffee chain, particularly at a time when the power was shifting to international traders or corporations.276 However, the cooperatives in Sul de Minas were connected institutions and fundamental to the fabric of the transformed coffee landscape. While there was a large difference between Cooxupé and Cooparaiso, particularly after the 1999 coffee crisis, they continued to expand their influence and solidify their position as the primary coffee institutions in the area, clearly demonstrated by their positions as the first and second largest coffee cooperatives in the world.

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275 Cooxupé and Cooparaiso representatives, interview by author, Sul de Minas, Brazil, April 15-May 17, 2011.
Chapter Three: Small-Scale Coffee Producers in a Liberalized Coffee Market:

The deregulation of the coffee industry in Brazil resulted in significant restructuring in power relations that ultimately harmed the livelihoods of small-scale coffee producers. The experiences of small producers help to account for the impact of transnational and national institutional changes in a defined space and time and, for an actual group of individuals, grounding the often broad ideologies of globalization and neo-liberalism in local experiences. In Sul de Minas, the closing of the IBC and the shift to an open-market economic structure ushered in a dynamic period of change for small-scale coffee producers, which was ultimately shaped by the subsequent coffee crisis. Focusing on small producers in the region of São Sebastião do Paraiso from 1989-2009, this chapter will trace the relationship between the producers on the ground and the institutions they interacted with over the course of the coffee crisis.

Despite the fact that these small producers were individuals who responded to the changes differently, there were important trends that highlighted their collective experiences and demonstrated the difficulties that most small producers struggled with and the coping strategies they relied upon. Ultimately, the small producer struggled to survive as a coffee producer during the coffee crisis. The small producer encouraged the state to re-enter the market and the cooperatives to provide greater social and professional support if it would improve their income. Culturally, coffee producers expressed the passion and heritage of growing coffee in Sul de Minas, and their desire to cultivate coffee contributed to the early development of collective actions. The coffee crisis brought continuous changes in the institutions that operated in Sul de Minas, which reshaped the perspective on being a ‘coffee farmer’ in Sul de Minas.

There has been recent attention paid to the history of small-scale coffee producers, in which academics typically agree that the coffee crisis generally deteriorated the livelihoods of
conventional small producers around the world, with an increase in poverty for individuals, families, or whole communities. The focus of recent studies has identified a general trend toward crop diversification in consumable staple products, migration, farm abandonment and economic ruin. In Sul de Minas, the literature indicates that a number of small producers exited the industry while others sought technical advice and applied for credit to reinvest in production.\textsuperscript{277} Overall, in Sul de Minas land use remained essentially the same, but production rapidly increased after 1990, placing Sul de Minas as a boom region in the Brazilian ‘coffee paradox’, whereby total Brazilian land under coffee cultivation decreased but the total amount of coffee increased overall as particular regions like Sul de Minas increased productivity.\textsuperscript{278} Other coffee producing countries in Latin America also decreased the area used for coffee cultivation and some slightly increased gross production, but Brazil is the only significant producer to both reduce land for production and greatly increase overall production.

Small-scale coffee producers are complicated to study because they represent a fractioned group of different classes and individuals that together compile 75-80 percent of the coffee producers in Brazil. A definition of small producers can be relative, but in comparison to the large Brazilian fazendas, most plots of production seem ‘small’ (some producers had millions of coffee trees).\textsuperscript{279} However, by 1985, over 95 percent of coffee farmers had less than 50 hectares, which provides a good indication that most of the producers were classed as small to medium farmers under the IBC.\textsuperscript{280} The definition that will be used for this paper relies on the cooperative


\textsuperscript{278} Sílvio Crestana, Gabriel Bartholo, Paulo César Afonso Jr, Eliassandra Aparecida Bento Mourao, \textit{Sustainable Coffee Economy} (EMBRAPA, 2001,) 1.

\textsuperscript{279} The prevalence of large farms contracted and expanded in different geographic regions. The Cerrado region to the north of Sul de Minas was rapidly developed into a number of very large farms relying almost exclusively on mechanical production.

definition, and occasionally on the perspective of the farmer himself, but the cooperatives typically defined small producers as those with fewer than 10 hectares of land in coffee production, with a large majority of these producers holding between 1 to 5 hectares, and typically in Sul de Minas a coffee grower would use most available land for coffee production.\textsuperscript{281} Under this definition, roughly 70-75 percent of the producers in Sul de Minas were small producers.\textsuperscript{282} Over time, Cooparaiso also developed another quantitative definition, identifying farmers who produced fewer than 200 sacs annually as small producers, but this definition would class over 86 percent of the producers as small, and blur the differences between changes in production and expansion of landholdings.\textsuperscript{283} The size of land is a good indicator to determine small producers because it provides a more consistent parameter; gross production could change with annual cycles, and overall production trends could increase or decrease depending on technology or changes in production, but the size of the landholding would only change through a more abrupt process of buying, selling or cultivating different products entirely.

Small producers can also be defined in other ways, including their method of production, their relationship with coffee, and their own opinion. Methods of production vary to include full time labour, seasonal labour, and family involvement in the harvest, as well as the level of mechanization used and whether they had partitioned production and income with another farmer. Coffee producers can be defined in a broader context by identifying those who cultivate coffee as their primary source of income, those who have an alternative employment or primary source of income, producers who cultivate other commercial crops or intercrop consumables, and small producers who only cultivate coffee. Small producers were diverse, but they were the

\textsuperscript{282} Cooparaiso, \textit{Cooparaiso Annual Report} (1992), 31. In 1992, the average landholding would have been between 3-4 hectares among the group defined as small producers.
\textsuperscript{283} Cooparaiso, \textit{Cooparaiso Annual Report} (2008), 27. A further issue with this definition was the failure to account for yield changes, or the method of production used on the land.
most common structure for coffee production in the area.\textsuperscript{284} Furthermore, over the course of the coffee crisis, the organization of the farm heterogeneously experienced important changes that reshaped the popular structure of the small producer unit. It is important to also recognize that the small producers in this paper are separate from the rural labour force, even though there was certainly crossover between the two groups, and despite the fact that they have historically represented each group at different times, the term ‘small producer’ will maintain a connection to a person who owns or rents land and grows coffee on that land.\textsuperscript{285}

Literature on the dissolution of the ICA price controls often analyzes the institutional changes and how the international market responded, but fails to effectively engage producers on the ground and consider their account. It was the producers who were most affected by changes in the coffee agreements, governmental institutions, and private institutions. The producers cultivate the coffee, and small producers typically rely on the money received as the primary portion of their income.\textsuperscript{286} In Sul de Minas the situation was no different, for while under the IBC coffee was the fundamental commodity that sustained the livelihoods of thousands of small farmers, becoming a cornerstone of communities and individual identities. Coffee cultivation spanned generations and was often inclusive of entire families on small farms, and the larger estates also offered seasonal labour opportunities. The estimates in 1985 suggest that only 25 percent of coffee farmers had another source of employment, leaving 75 percent of farmers reliant solely on coffee as their primary source of income.\textsuperscript{287} These numbers do not differentiate


\textsuperscript{285} The division of small producer and rural labourer is a difficult distinction because small producers reliant on coffee based incomes would often try to sell their labour to larger farms if they finished the work on their harvest. This topic deserves further research but is largely outside of the scope of this paper.

\textsuperscript{286} FAEMG, \textit{Diagnóstico da Cafeicultura em Minas Gerais} (Belo Horizonte: FAEMG, 1996).

between the different classes of coffee farmers and who exactly had other employment, but they still demonstrate that most farmers were directly linked to the production and price of coffee.

The experience of coffee producers under the IBC has been under stressed in academic literature and information that is available lacks clarity overall. However, there were a few perspectives that emerged leading up the closing of the IBC, but typically these voices were those of professionals, debating about the direction of the IBC and not the producers themselves. The discussion typically portrays one group who contended that Brazil, as a whole, would benefit from a free-market coffee economy, but there was rarely any discussion as to who exactly would benefit.288 Similarly, Jarvis generalizes about the negative impact of the ICA on small producers, stressing how large producers took advantage of land rents under the IBC, which benefited “bureaucrats, exporters... and foreign importers” and not the farmers. However, Jarvis does not discuss the low capacity of the small producers to engage with an “open-market”, or how a new system of power could be redrawn to also benefit small producers once the ICA was disbanded.289 Liberalization of the Brazilian coffee market was claimed to be overall beneficial, but the small producers, despite accounting for the vast majority of producers in the industry, were largely excluded in the process, lacked political organization, and had little power to influence the process of market liberalization.

Dissolution of the IBC: Economic and Structural Challenges

The period after 1989 ushered in two different forms of change for small producers; the first was structural and the second was economic, marking the beginning of the coffee crisis.

The IBC was the primary structure for small producers in Sul de Minas. It acted as the physical

288 Antônio Carlos Moreira, História do Café no Brasil (Brasil: Câmara Brasileira do Livro, 2007), 117.
infrastructure to commercialize coffee and there were various locations in the countryside where farmers could transport and sell their coffee with guarantees on a minimum price. The destruction of the old structure was combined with immediate economic changes. As various coffee producing countries (excluding Brazil) sold their coffee stocks, the market price fell rapidly. At the same time the cost of production was on the rise; Cooparaiso estimates suggest that the cost per sac of coffee jumped from USD $72.44 in 1989, to USD $118.04 in 1990, an immediate increase that marked a turning point in the Brazilian coffee industry as the cost of inputs played a much larger role in production economics. These changes typified the first phase of the coffee crisis, including extreme changes in market price and production costs, while coffee producers had to navigate the global market for the first time. The economic changes were compounded by the fact that small producers had to build new relationships in order to sell their coffee. The immediate result was that, by 1991, the cost of production had risen higher than the farmers’ incomes.

The IBC was crucially important for small producers because it provided them with a method to sell their coffee and, under the sanction of the IBC, they did not have to develop a system to export. The export industry developed a new export unit called ‘containers’ rather than ‘sacs’. The middlemen who controlled shipping focused on containers, which reduced their costs. A single container required roughly 300 sacs, which no small farmer could individually produce, and a single container would be difficult to export because coffee importers did not want to negotiate in single units when they required large shipments. Beyond that was the challenge of finding a buyer, moving the coffee and ensuring that the transport would reach the

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290 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 69.
292 Various small producers identified the challenges involved in exporting their coffee on the international market, including barriers in shipping due to the use of containers.
market. However, a small producer in the area estimated that in order to export, one needed roughly 100,000 sacs, which would require roughly 6 million plants of coffee (according to his calculations).293 While the numbers may be wrong, these estimations are very high when compared to the yield of a typical small producer, and demonstrate the lack of viable options for small producers to export their coffee directly in the market. Small producers had to forge relationships with institutions that could use economies of scale to commercialize their coffee, like cooperatives. Conversely, the situation was somewhat easier for large producers who had larger holdings, larger harvests and greater power to facilitate and fulfill large export agreements. Typically in Sul de Minas, large producers joined the cooperatives, but in a different relationship than that of small producers, and were less dependent on the cooperatives for commercialization.294

The transition to a deregulated sector also had important consequences for small producers regarding credit and coffee production forecasts. Previously, the IBC was the primary provider of credit for coffee producers. However, as political power eroded leading up to 1991, sources of credit were greatly reduced.295 By 1991 it had become a challenge to find access to credit, particularly for small producers who were either indebted or had few assets to secure further credit. Larger producers were a little better off because they often had greater assets in machinery and land, as well as alternative sources of income. Also, the state did not continue with Brazilian coffee forecasts, removing a vital source of information from coffee producers regarding future production and international price trends, further distorting the value of coffee farms. In this light, Carlos Melles identified the impossible challenges that faced the small producers.

293 José Ricardo, interview by author, São Sebastião do Paraíso, April 18, 2011.
294 Ilson, interview by author, São Sebastião do Paraíso, April 19, 2011.
295 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 70.
producers and criticized the government’s withdraw as a “debacle”, because too many changes occurred at the same time, leaving the producers unable to react. 296

The response by the producers to the closing of the IBC and the price decreases thereafter was complex because, on the positive side, a significant coffee tax had been removed, but there are several indicators that help to explain the confusing situation. The initial period after the deregulation experienced a small movement of producers out of coffee production, either by changing crops or, in dire circumstances, by abandoning their land. The primary cause identified for this movement out of coffee was the decline in coffee prices and income. 297 However, the region of Sul de Minas was one of the best areas for quality coffee in Brazil and this afforded the farmers the potential to improve their crop by focusing on quality. One producer reflected on the period, indicating that small producers experienced either stagnation or impoverishment, but that the ability of the region to produce better quality coffee helped producers improve their situation when compared to other coffee regions of Brazil. 298

The glaring issue for small producers was how to improve the quality, and how to do so quickly. In coffee production, like many other commodities, producers make choices between quality and quantity, and need to balance the two elements to ensure the best return on the harvest. 299 Initially, many producers responded by reducing the chemicals used, resulting in lower costs but also lower yields. 300 These actions reflected the rising cost of chemicals, which

296 Rogério Geraldo Ribeiro Andrade, “Cafeicultura Em Minas Gerais,” 62.
298 Márcio, interview by author, São Sebastião do Paraíso, April 28, 2011.
299 This polarity was one of the principles that was challenged with mechanization. The idea was that producers could keep high quality and increase production, potentially increasing both at the same time to gain greater income from the market.
had increased over 30 percent from 1990-1994.\textsuperscript{301} However, through intense application of chemicals and the reliance on mechanical harvesting and processing, producers could potentially increase both the quality and the quantity of coffee. While various institutions encouraged higher quality, the point of sale (often the cooperatives) was the largest determinant because they paid very poorly for lower quality coffee, but the markets that the cooperative sold to were certainly influential in shaping the conception of quality, a process that influenced all coffee producing regions. Despite the rising cost of chemical inputs and the falling price of coffee, agro-industrial production was the chosen approach in Sul de Minas to compete in the international market. Dependence on chemicals increased over time and the agro-industrial approach stressed that higher quality could be achieved through chemical based pest and disease control and greater mechanization to ensure the maximum amount of quality was preserved through the harvest, linking mechanization, intensification and scientific research as the prominent approach to improving quality.

For decades the IBC had been the guiding institution in the industry, shaping the areas of cultivation and encouraging institutions that reached out to farmers, even if that outreach was limited. As the coffee landscape became more fragmented and power shifted to the cooperatives, small rural organizations also emerged in response to the declining prices and weakened coffee institutions. A number of small producers in Sao Sebastião do Paraíso attempted to form a rural association that included small producers, EMATER, and city hall representation, but excluded the cooperatives. The goal was to form a new, smaller cooperative in Sao Sebastao do Paraiso to export coffee, but these efforts were generally unsuccessful because the association could not compete with Cooparaiso for exports.\textsuperscript{302} Despite the failure to form an independent cooperative

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\item[\textsuperscript{301}] Joao Roberto Puliti, \textit{Cafeicultura, Alta dos Insumos deve Comprometer Renda do Produtor} (FAEMG, 2008).
\item[\textsuperscript{302}] Maceo, interview by author, São Sebastião do Paraíso, April 28, 2011.
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in the region at that time, the rural organizations were popular and developed into small political bodies of limited power, representative of small producers. The rural organizations focused on practical goals in the beginning and were able to effectively lobby the city for donations and equipment, creating a forum to express collective power which continued to increase over the course of the coffee crisis.  

Frost and Drought: Higher Prices and Increasing Institutional Support

There are many ecological threats to coffee production, but from the producer’s perspective a heavy frost is the worst, because a frost can kill trees or eliminate production for years and there is very little producers can do to prevent it. The frost in 1994 affected nearly all regions of Sul de Minas but, depending on detailed geographic and climatic factors, various areas were affected to different levels of severity. Due to the variation of the frosts, the impact of the ‘pause’ in the coffee crisis confuses and fragments the narrative. In 1994, a coffee farmer named Eduardo, who was considered a large coffee producer, had his plantation almost destroyed by the frost, resulting in the destruction of 180,000 trees, and the stumping (a process of reducing the tree to a base) of 600,000 other trees. The next year, this same coffee producer experienced a drought which also reduced production levels. These two ecological events were compounded by the absence of strong state credit agencies, but Eduardo managed to replant. The replanting effort at his farm began in 1995 and added 500,000 new plants; the stumped plants would also begin a new growth cycle. Eduardo’s reinvestment in new trees and stumped plants became productive around the same time, in roughly 1999, when the second

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303 Maceo, interview by author, São Sebastião do Paraíso, April 28, 2011.
304 There are limited long-term actions that can reduce the impact of a frost, including intercropping of shade trees and ensuring a nearby stream or river to offset the severity of the frost.
phase of the coffee crisis had begun. The justification for the replanting had been based on the rise of coffee prices after the frost and the good return received on the coffee he’d been able to harvest.\textsuperscript{306}

Eduardo’s replanting style followed the methods of maximizing productivity with available land, as propagated by the cooperatives and the state research centres. The focus on high production was best represented by his application of the aptly named “super dense planting”, a system in which coffee trees were planted with 1.25 meters between trees and in close rows, allowing the planting of 16 000 trees per hectare. After the initial cycle of harvests (typically three years, but the tree would be 7 years old by then), about half of the trees would be removed to allow further growth, but the trees would remain in rows wide enough for mechanical harvesting.\textsuperscript{307} Typically, this style of cultivation used the plant variety “Catuai”, which grew rather low in stature and was ideal for mechanization.\textsuperscript{308} Broad statistics support Eduardo’s case, as the planting of Catuai became increasingly popular throughout the coffee crisis. Mundo Novo, another variety that was more typical for hillsides, was also popular and these two varieties were often planted together: Mundo Novo on the hills and Catuai in mechanically accessible rows. Planting trends indicate that replanting efforts after the frost followed the advice of government-financed research centres. EPAMIG had developed the variety Catuai, which thrived with the application of a certain mix of production chemicals, producing a large yield with a high disease resistance.\textsuperscript{309} The replanting effort among farmers

\textsuperscript{308} Juraci Júnior de Oliveira, manager of EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
\textsuperscript{309} Juraci Júnior de Oliveira, manager of EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
like Eduardo relied on the research institutions, and they followed the collective advice of coffee institutions.

The use of industrial machines in coffee harvesting was a trend connected to the large coffee producer, trending back to before 1989. Historically, the large fazendas would be located on the relatively flat land of the valleys, which was ideal for mechanization. However, small producers also began to acquire mechanical harvesting tools, a more recent development that increased over the course of the coffee crisis, particularly in regions with high labour costs.\textsuperscript{310} The expansion of small producer mechanization greatly increased from 1994-1999. During this period, Cooparaiso entered the market for harvest technology and forged relationships with large companies, while opening outlet stores at the cooperative. Cooparaiso helped to open up the market for machinery and offered greater options to producers, while also informing members about the benefits of machines and how to use them. There was diversification among the harvest machines, as small, hand-held harvest machines were developed and sold at reasonable prices.\textsuperscript{311} The hand-held machine allowed one labourer to harvest an equal amount of coffee as six traditional workers, allowing the small farmer to reduce a need for rural labour, and the machines could be used on the hillsides where tractors could not reach.

As a larger number of farmers began to cultivate crops in harvestable rows, producers in a single area could together finance the purchase or renting of a large mechanical harvester and rotate it among their farms. These collective efforts are evidence of increasing community organization and reliance on social capital. Each producer had different mechanical demands, depending on their physical landscape, the cost of labour, and social networks, but overall there

\textsuperscript{310} Francisco Borges de Oliveria, interview by author, Sebastião do Paraíso location, April 21, 2011. He claimed that the agronomical advice he recommended was to mechanize production based on cost of labour/geographic factors that shaped mechanization in each specific region.

\textsuperscript{311} Cooparaiso machinery store, São Sebastião do Paraíso location. By 2011, the price was roughly 2000 Brazilian Reals for one hand held machine, but there is little information on the price changes over the last twenty years.
was greater access to harvest machines at better prices. The early process of mechanizing the farm of the small producer provided a clear reduction in labour costs and ensured that the new coffee landscape was focused on increasing production.

The creation of the PRONAF credit system was fundamental in supporting small coffee producers, particularly as the prices continued to decrease and other forms of credit charged very high interest rates. Funcafé was available to small producers, but seemed more difficult for them to access, probably due to more bureaucracy and higher interest rates when compared to PRONAF. Various farmers in the Sao Sebastao do Paraíso area stressed the importance of PRONAF for their ability to cover annual costs and invest in infrastructure. Various small farmers stressed that during the 1990’s, after replanting their coffee plants in rows to improve quality and yield, they would often turn to PRONAF loans to purchase a tractor or improve their farm infrastructure. Without the PRONAF loan system there were few alternative credit programs available with similar low rates. Other farmers used PRONAF loans to invest in new drying terraces, because the process of drying coffee on the ground resulted in large losses in quantity and often the quality suffered, the coffee being identified as ‘dirt’ coffee and returning exceptionally low prices. The PRONAF system did benefit the more affluent small producer because the amount of the loan was dependent upon the total assets a producer possessed. However, even very small producers with limited assets stressed the importance of PRONAF, and stated that close relations with EMATER, EPAMIG and, to some extent, Cooparaiso helped to secure the loans. The development of the PRONAF credit system was

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312 Juraci Júnior de Oliveira, manager of EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011.
313 Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 26, 2011; Daniel Pereira, coffee classification technician, interview by author, São Sebastião do Paraíso location, April 19, 2011.
314 Homero, PRONAF Application, income and asset requirements.
315 Various small producers, interview by author, São Sebastião do Paraíso location.
linked with rural political movements intended to draw the government back into the lives of small producers.  

The PRONAF loan system contributed to, and aligned with, the process of modernization, and the transition into ‘professionalizing’ the coffee industry. The RONAF system aimed to supply credit for production and infrastructure, but it was specifically stated in the program protocol that the aim was to “modernize the productive system, valorize the rural producer, and professionalize the family production system.” Considering this approach, the credit system also sought to implement rural development, which was portrayed as a continuation in the process of mechanization and profit-making, by essentially beating the market price by producing more, with quality, at a lower price. The PRONAF system was certainly beneficial for small producers who needed access to credit. The interest rates were the lowest formal rates in the agricultural sector, but they also added an additional source of debt for producers, who were cultivating a commodity at a net loss. The modernization of small producer coffee production in Sul de Minas featured two trends: The state re-entered the sector to provide credit at low rates and producers became increasingly indebted and reliant on credit to cultivate coffee.

In 1997, an association of Sul Minas Coffee Growers emerged, linking 32 municipalities in the region and marking one of the initial steps in the development of independent grower organizations. The aim of the association was to seek solutions for the rising costs of production, including the increasing costs of general labour, inputs, and the inability to use mechanical

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317 José Brandt Silva Filho, *Programa Nacional de Fortalecimento da Agricultura Familiar – PRONAF, Qual o objetivo?* (Government publication, Banco do Brasil), 1.
harvesting on mountainsides. The Sul Minas Coffee Growers association was the first major group to express interest in shifting their production method to organic farming. The association fought for the implementation of “sustainable coffee”, a commodity which included a profitable and repeatable system of production that did not pollute the environment yet still offered resistance to coffee diseases. Furthermore, they wanted an organic system of production that did not rely on the chemical and mechanical inputs that were being used for the vast majority of coffee cultivated in the region. This movement identified a producer-movement seeking to address the impact of heavy chemical-based production and the enormous investments that were needed to produce mechanized coffee. However, while the requests of the association were quite grand, they still wanted the support of the state research agencies to enable organic, monocultural cultivation, linking the movement for alternative methods of cultivation with state research foundations.

The pause in the coffee crisis was particularly confusing because the market price rebounded to numbers similar to the last years under the IBC. Small producers were still structurally marginalized, as they had been ever since the abandonment of the state after 1990. While access to credit and overall information was improving, there were limited options beyond the cooperatives in which to access the commodity chain and actually commercialize coffee reasonably. Producers faced difficult choices and diversification rarely came in the form of cutting down coffee trees or intercropping other market commodities, but rather through methods that preserved or modernized coffee production, reinvesting in coffee to protect themselves from

low coffee prices.\textsuperscript{322} Contributing to this perception was the lack of information available for small producers and misconceptions about the open market; greater production seemed like the best method to ensure higher income. From the perspective of a small producer, the higher prices suggested that the market may have corrected itself, as the international supply was decreasing, Brazilian domestic consumption was on the rise, and the cooperatives and state were supporting replanting methods and encouraging coffee cultivation. The re-emergence of the state ‘voice’ and the development of a cooperative methodology created a growing pressure to cultivate a particular style of coffee, and may have provided a sense of optimism towards the future profitability of coffee production and stable income.\textsuperscript{323} Overall in Brazil, the total area in use for coffee had shrunk by 24 percent from 1990-1999.\textsuperscript{324} However, in Sul de Minas, the production area had remained unchanged and coffee continued as the dominant crop in an area where coffee culture reigned.\textsuperscript{325}

Price Crash: Small Producers Seek Survival in Coffee Production

The second phase of the coffee crisis, in the years after 1999, has been directly identified by many small producers as the definitive turning point for the coffee industry in Sul de Minas, marked by paltry returns on coffee which has harmed farmers, families, and local communities that were strongly linked to coffee incomes. The rapid decrease in the market price over the second phase of the coffee crisis drove various farmers out of coffee production, either turning

\textsuperscript{322} This is evident by the forms of diversification into dairy and seeking alternative sources of employment, while maintaining the coffee fields and maximizing the land use.
\textsuperscript{323} Rogério Geraldo Ribeiro Andrade, “A Expansão da Cafeicultura Em Minas Gerais,” 104.
\textsuperscript{324} José Geraldo Pacheco Ormond, Sérgio Roberto Lima de Paula and Paulo Faveret Filho, Café: (Re)Conquista dos Mercados, Banco Nacional do Desenvolvimento, Setorial, N. 10 (Rio de Janeiro, 1999), 30, 35-36.
\textsuperscript{325} This was particularly important to stress the continued engagement with coffee while other regions underwent extensive changes. The landscape of Minas Gerais underwent a drastic shift with the opening of industrial style of production in the Cerrado and experienced an exodus of family production units in Zona da Mata, where the quality was significantly lower and producers were essentially forced out of the market.
their land to other crops or pasture, or selling their land outright and moving out of coffee entirely. The low prices were recognized by President Lula as being particularly hard for farmers, acknowledging that the fall in incomes had contributed to a widening inequality.\textsuperscript{326} However, some producers thought that prices would increase in the future and that they could ‘ride out’ the difficult period, while others in Sul de Minas decided to expand production or enter the market, capitalizing on lower land prices.\textsuperscript{327} José Ricardo, a forty-year-old small-scale coffee producer, was able to purchase land, with his father’s help, in 2002 because prices were low and he had been searching for just such an opportunity to own land for coffee production. For him, the low prices were an opportunity rather than a warning sign about the future of the sector, but his ambitions were mainly driven by personal history and local culture, as demonstrated in his statement: “all I know is coffee.”\textsuperscript{328} José Ricardo clearly explained the importance of the coffee culture in the region, stressing that although he knew the dangers of the coffee market, his family had grown coffee for generations and survived, and that his land and his life were all about the growing of coffee.\textsuperscript{329}

Other producers provided similar sentiments in regard to their extensive knowledge of coffee farming and their experiences with price changes, but they also acknowledged that the post 1999 coffee crisis was an era of the most devastating price changes they had ever experienced, and that the crisis had lasted much longer than expected. Despite poor incomes, many people in the region stressed the passion they felt for coffee cultivation.\textsuperscript{330} Homero, an EPAMIG employee, typified this sentiment when he first entered coffee production in 2001

\textsuperscript{326} International Coffee Organization, “Statement by the President of the Republic of Brazil,” 3.
\textsuperscript{327} Aline de Freitas Veloso, Isabela Silva Conselho, Pierre Santos Vilela, Evolucao do Preco de Terras em Minas Gerais, Assessoria Técnica (Belo Horizonte, Brazil: FAEMG, Agosto 2009), 6.
\textsuperscript{328} José Ricardo, interview by author, São Sebastião do Paraíso, April 18, 2011.
\textsuperscript{329} José Ricardo, interview by author, São Sebastião do Paraíso, April 18, 2011.
\textsuperscript{330} These varieties were experimented with at the EPAMIG research station outside of Sao Sebastao do Paraíso and included a type of coffee called Paraiso, Catiqua-MG 3 and Catuai.
because, after years of working on coffee research, he wanted to apply strategies from EPAMIG to the cultivation of his own coffee.\textsuperscript{331} He slowly expanded his production and survived, but specifically because coffee was not his main source of income. Homero wanted to cultivate coffee with quality, and included varieties of trees that were best resistant to rust and other diseases. In 2003, he decided to reinvest so that he could expand coffee production over several years and he adjusted the style of cultivation to allow access for large harvest machines, despite owning a very small holding.\textsuperscript{332} The examples of José Ricardo and Homero help to contextualize the variation found within the group collectively called ‘small producers’. José Ricardo was economically dependent on coffee production, and had chose to enter the market when prices had fallen to their lowest historical levels, while Homero had a reliable, alternative profession and wanted to enter coffee production in order to apply his knowledge on how to cultivate with research and technology. In the end, these men both became small producers mainly due to culture and passion, despite the low economic returns.

The cooperatives functioned as an important source of information and stability for small producers, providing a reliable source for commercialization and technical advice. Under the IBC there were programs available for producers on how to improve coffee production, but there were far fewer agronomists available to visit small farms, and the advice given was not always particularly good.\textsuperscript{333} The Cooperatives developed extensive networks to send agronomists to local farms, suggesting methods to fight disease and pests and improve yield and quality. The integration of programs through Cooparaiso provided a single location where most services could be accessed, including hosting the SENAR classes designed to increase various forms of

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\textsuperscript{331} Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 18, 2011.
\textsuperscript{332} Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 18, 2011.
\textsuperscript{333} Francisco Borges de Oliveria, interview by author, São Sebastião do Paraíso location, April 21, 2011.
\end{flushleft}
producer capacity regarding agro toxins, mechanization, overall management and post-harvest processing and quality.\textsuperscript{334} The long and stable history of the cooperatives also ensured that they were safe locations for producers to submit their coffee stocks and the producer could choose when to sell, despite having to pay a stocking fee to the cooperative.\textsuperscript{335} Many small producers expressed some positive sentiments, but were also critical of the cooperative, claiming that Cooparaiso actually provided very little for them. In particular, small producers claimed that various programs did not function well, directly indicating the technical outreach program to bring agronomists to their farms, indicating some degree of preferential favouritism within the cooperative.\textsuperscript{336}

Coffee production became increasingly tied to the availability of credit because it required various investments at the beginning of the harvest cycle, including the payment of previous debts, the purchase of chemicals, stocking fees, and labour and transportation costs incurred by the harvest itself. Credit provided up to 90 percent of the financing for coffee production and the ability of the producers to secure reliable sources of credit was fundamental to coffee production.\textsuperscript{337} The credit cycle stressed the importance of the PRONAF loan system and many small farmers accessed the system to expand their infrastructure, often investing in terraces to dry their coffee or in machinery to help harvest it. In 2001, Jaime Junqueira Payne became the director of the Department of Coffee in the Ministry of Agriculture and developed a program that would ensure “finance without risks for the producer.” The core idea was to further increase financial support and credit options for producers because of the high risks related to the poor coffee prices, and the limited credit options available outside government subsidised

\textsuperscript{334} SENAR conducted chemical application courses on a local farm owned by Cooparaiso.
\textsuperscript{336} Jose Ricardo, interview by author, São Sebastião do Paraíso, April 18, 2011.
\textsuperscript{337} Ilson, interview by author, São Sebastião do Paraíso, April 19, 2011.
programs. However, the cooperatives also gradually developed a strong internal credit system that could be accessed by members in good standing, and at good interest rates. Cooparaiso typically charged 5.5 percent interest per year to its members, which was higher than the PRONAF rate of 3.5 percent per year, but well below the typical financial market rate of 8.5 percent per month.

While there were various programs available to coffee producers on how to improve the quality of coffee, including the presence of international programs such as Rainforest Alliance and UTZ International, the Certification Minas program was the most important quality program offered to small producers. The program was sought after by small producers because the players were familiar; the certification operated locally, was supported by the state, and was aimed at the internal Brazilian coffee markets. The Minas Coffee Certification program was accessible to the small producer who had to follow a particular criterion over the course of a few years under the guidance of EMATER and EPAMIG. The goal was to use quality as a strategy to divide the “Café do Brasil” label and identify pockets of specialized coffee within the Brazilian landscape. In particular, the program aimed to “valorize” the production and producers of the state, push Minas coffee to the forefront, and feature it in the world market. The most important element for small producers was that the program was attainable, although the requirements demanded that producers follow the style of cultivation supported by the state and conveyed through EMATER.

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339 Ilson, interview by author, São Sebastião do Paraíso, April 19, 2011.
340 Image, Certifica Minas Café.
The Minas Coffee Certification was supported by the government of Minas, research institutions, and the Brazilian Coffee Industry Association (ABIC). The program propagated that producers could gain higher incomes and greater environmental protection for their land. The certification program developed a scale, based on the Specialty Coffee Association of America (SCAA) system, wherein numbers closer to 100 indicated higher quality. The Minas Coffee Certification Program and ABIC developed prices relative to each coffee ‘score’. For small producers, the program offered a few benefits: the connection to ABIC guaranteed access to the rapidly growing Brazilian coffee market, and the score system ensured that very good quality would fetch a relative and established price scale, which was estimated to provide between 10-25 percent above market price.

The certification program also provided a clear, institutionally supported process that, if followed correctly, would improve the quality of the coffee and result in higher incomes. The program still reinforced the link between producers and the cooperative because producers had to stock their coffee somewhere, and they also had to have the quality tested before selling. By 2009, few producers had attained the certification because the program required a period for the producers to adjust to the new style of production according to the demands of the system, and to gain approval from the certification board, which typically required three years. Overall, the program was highly bureaucratic, but most producers indicated that it was a desirable market and some small producers managed to gain certification.

343 José Reis, interview by author, São Sabastião do Paraíso, April 20, 2011.
Small Producer Diversification Strategies

The Minas Certification program was a small, but growing, section of the Sul de Minas coffee landscape. The greatest change over the course of the coffee crisis was the continued transformation in the style of production, and the expansion of modernized cultivation brought a new set of challenges for producers. The focus on increasing production per hectare typically relied on the use of fertilizers and defensive chemicals. When the price of coffee decreased after 1999, producers responded in two divergent ways. The first was to remain committed to using the same amount of chemicals to produce the maximum amount of quantity and the best quality, as advised by the research institutions and the cooperatives. The second path was to reduce the amount of chemicals used in a year in order to save on the costs of growing coffee, as many farmers did by 2004-2005, as the coffee market prices were sustained. Reducing the application of chemicals in high density plantations rapidly changes the production of the coffee, and invites the typical pests and diseases that are particularly problematic for mono-culture coffee production. In turn, the quality and yield are much less, fetching a lower price on the market. This chemical reducing strategy was popular for small producers, but lower quality coffee pushed down the price they received, which could fall by as much as 50 percent. This example demonstrates the difficult choices that small producers had to make regarding the direction of their production, choices that led to further indebtedness to maintain chemical application, or a downward cycle of poor quality, yield and price. Furthermore, it also demonstrates the importance of the credit system during the coffee crisis, both from the state and the co-ops, and the appeal of the cooperative programs that offered chemicals at a lower price.

344 Daniel Pereira, Cooparaiso coffee classification technician, interview by author, São Sebastião do Paraiso, April 18, 2011.
345 These problems can vary but the most threatening were coffee leaf rust, the borer beetle and the response of particular varieties of coffee that produce a significantly lower yield without fertilizer.
346 José Reis, interview by author, São Sebastião do Paraiso, April 20, 2011.
during certain periods for members, ensuring the importance of the cooperative when coffee prices were low.

Diversification became increasingly important as low coffee prices were sustained for years during the second phase of the coffee crisis. Various producers identified the necessity to seek a secondary, or in some cases primary, source of income beyond coffee. José Reis, a small producer in the area, represents a common response to the changes in the coffee landscape. José Reis had a relatively small holding that had been in his family since his birth; his father was a coffee farmer and he chose to carry on the tradition. He has maintained coffee production, but in 2000 he had to diversify into dairy farming as well, because the money he earned from coffee production was not sufficient to support a family. Jose Reis claims that he has been an ‘ideal’ small producer since the event of the coffee crisis in an effort to increase his income; in this fashion a small portion of his farm is also used by an EPAMIG research station for coffee experimentation.

Jose Reis has followed the advice of the institutions; he applied the recommended amount of chemicals to his plants, grew the variety suggested by the agronomists, and was one of the first farmers to enter the Minas Certification program, achieving recognition in the local area, but he still needed to rely on the additional dairy income to survive. He claims that beyond 2000, the coffee market has been terrible and the situation has been “very difficult.” José Reis turned to diversification on his own farm, and he dairy farming because it only demanded a slight reduction in the area devoted to coffee. At the same time, he reinvested and remained committed to coffee production. José Reis claims that the IBC was better for the small farmer because the IBC helped provide protection from the open market and secured better prices. He identified the rapid rise in the cost of chemicals as one of the major problems in the sector, holding the small

347 José Reis, interview by author, São Sebastião do Paraíso, April 20, 2011.
farmer down, stating that “although I may have a better quality of coffee now, I also have much higher expenses.”

Diversification into dairy became a common occurrence in the region because it was historically familiar to the area and a large majority of the land could still remain invested in coffee or replanted for future production. However, dairy production also demanded particular investments, both financially and economically. For the José Reis family, the expansion into dairy divided the family between two sources of labour. The mornings would involve both he and his wife working with the cows, and in the afternoon he would attend to the coffee. The dairy cows became the primary responsibility of the female head of the household. Furthermore, during the three month coffee harvest labour would have to have been hired because “dairy cows need to be worked 365 days a year.” This detailed example demonstrates a typical experience of a small producer who has diversified his production but has remained committed to coffee and, in fact, was both responsive and engaged with the changes in the coffee sector. José Reis expressed the strong sentiment that the diversification resulted in enormous increases in labour for the family and higher time and financial costs, however, while he expressed nostalgia for the IBC, it was matched with a sentiment of pride and accomplishment for having survived the coffee crisis while continuing to produce coffee.

Various types of diversification were implemented by producers in Sul de Minas, but they still maintained a fundamental commitment to producing coffee. Among these were sometimes practical diversifications that included intercropping crops with beans or corn, planting consumable crops between coffee rows until the coffee had matured. Commercially, there were few alternative crops that offered great potential as replacements for coffee, although

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348 José Reis, interview by author, São Sabastião do Paraíso, April 20, 2011.
349 José Reis, interview by author, São Sabastião do Paraíso, April 20, 2011.
350 José Reis, interview by author, São Sabastião do Paraíso, April 20, 2011.
some farmers turned to sugar cultivation or used their land for pasture, but these sectors did not offer strong returns and the land was extremely good for coffee production.\textsuperscript{351} In a few cases, small producers attempted to diversify and reduce chemical input costs by investing in industrial chicken coups and using the waste as a high-nitrogen fertilizer, but these examples required a large investment that few could afford. On-farm diversification often included partitioning the coffee responsibilities with another farmer, who would focus solely on the coffee and split the profits with the land owner.\textsuperscript{352}

The coffee crisis also drove diversification of the coffee “farmer”, which occurred with and without diversification of farm land. Estimates from a producer in the region claimed that a typical producer would need over 50,000 coffee trees to support his family, all which needed to be productive and mechanically harvestable in order to reduce costs, but even then he would likely need another job, stating that “it is normal now for people to have a job, and grow coffee.”\textsuperscript{353} Uncertainty over the coffee market motivated many small farmers to diversify their position as coffee farmers and seek other forms of employment. In the Sul de Minas region, the demand for rural labour in coffee had decreased, as will be discussed later, but there were still avenues where social capital was valuable and small producers were able to find labour opportunities on neighbouring rural farms, where they could gain some amount of money and valuable knowledge.\textsuperscript{354} The landscape in Sul de Minas contained various sizes of farms, and small producers would seek seasonal employment with the larger farms in the area. In addition, some would join the broader process of urbanization in Brazil and turn to the small cities in Sul

\textsuperscript{351} Various producers identified the limited economic potential of other viable crops and the hesitation to remove their coffee trees after long-term investment to coffee production. In addition, small producers also expressed a particular pride regarding the quality of their land, and the region of Sul de Minas for coffee cultivation.

\textsuperscript{352} César and Silvio, interview by author, São Sebastião do Paraíso, April 29, 2011.

\textsuperscript{353} Homero, agricultural technician at EPAMIG, interview by author, São Sebastião do Paraíso location, April 17, 2011

\textsuperscript{354} Maceo, interview by author, São Sebastião do Paraíso, April 28, 2011.
de Minas for work, or seek employment in a larger city and partition their coffee production. The diversification in labour was extensive, but typically involved great effort on the part of the individual to continue to produce coffee and remain a coffee farmer, even if the lifestyle and identity had changed.

**Market Strategies: Modernization, Mechanization and Rising Costs**

Over the course of the coffee crisis, many small producers considered the decreasing prices of technology and machines as an opportunity to reduce labour expenses and harvest according to the style in which they were cultivating their plants. The process of increasing mechanization had been developing in Sul de Minas for a long period of time, but rapidly accelerated after 1999. Cooparaiço instituted the Movement to Mechanize Paraiso, which linked the cooperative with international companies producing tractors and harvest machines, solidifying the cooperative as the primary machine vendor for members. However, because of the mountain landscape in Sul de Minas, often only a portion of a producer’s field could be harvested by a particular type of machine. Typically, producers developed production ratios of mechanical and hand-labour harvesting, a process dependant on the style of planting and the geography of land but, overall, selection and access to machines rose while their prices rapidly decreased. However, there were many other factors that shaped the choice and ability of the producer to mechanize their production.

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355 Ilson, interview by author, São Sebastião do Paraíso, April 19, 2011.
356 Flávia Maria de Mello Bliska, et al. “Custos de Produção de Café nas Principais Regiões Produtoras do Brasil,” *Informações Econômicas*, Vol. 39 N. 9 (2009): 13-14. The cost of production in Sul de Minas was high when compared to other coffee growing regions but the balance between hired labour and mechanized labour resulted in costs relatively similar to the Cerrado region, an area that developed and relied on almost exclusive mechanical production.
Brazil had been engaged in a process of coffee modernization well before the closing of the IBC, but before 1989 mechanization was predominant only on large farms, where there was a stronger history of investing in onsite processing equipment, large harvest machines, and industrial dryers. After the IBC was closed, the large farms invested in a process of further mechanization and modernization. The farm “Fazenda Diamantina”, owned by Cooparaiso president Carlos Melles, reflects the experience of the larger farms through the coffee crisis. Fazenda Diamantina was a member of Cooparaiso but had sufficient machinery onsite to process its harvest.\(^{358}\) The harvesting system was almost entirely mechanized in the 1990s, with machines that could separate quality, de-shell the cherry and ferment if needed, before sending the coffee to the large drying terrace. In 2000, the farm purchased new drying machines that could process 30,000 litres an hour, enabling the farm to process over 1000 sacs of coffee a day.\(^{359}\) These onsite processes were able to greatly increase the quality of the coffee, and avoid using workers to turn the beans when drying, a step in the process where small producers often lose quality in their coffee.

Throughout the coffee crisis, Fazenda Diamantina continued to expand its coffee production and plant with greater density. The farm continued to invest throughout the coffee crisis and greatly increased the level of mechanization, the use of technology and private agronomists and cost-saving processes.\(^{360}\) The entire coffee harvest from 1.3 million coffee trees was delivered through Cooparaiso, but they avoided using the services that typically cost small producers up to 10 percent because they were able to process, separate and increase quality

\(^{358}\) Manager of general operations and coffee quality, interview by author, Fazenda Diamantina, São Sebastião do Paraíso, April 21, 2011.

\(^{359}\) Manager of general operations and coffee quality, interview by author, Fazenda Diamantina, São Sebastião do Paraíso, April 21, 2011.

\(^{360}\) Fazenda Diamantina de Santo Antonio, “Coffee Planting History,” Fazenda Diamantina continued a consistent replanting process that did not change due to the economic changes during the coffee crisis. Information collected directly from Fazenda Diamantina, São Sebastião do Paraíso. The farm demonstrated the history of coffee replanting process and general improvements in technology on site.
onsite, relying on the cooperative solely as a point for commercialization.\textsuperscript{361} The larger farms had a greater capacity to process and prepare their coffee, typically ensuring higher quality through this process, but they still stocked and sold their coffee through cooperatives. Because a single large producer could provide a large amount of quality coffee, Cooparaiso placed higher value on maintaining their loyalty by reducing certain rates for them.\textsuperscript{362} Large producers internalized some costs by processing the coffee themselves, but they also received better prices from the Cooperative on machinery and stocking rates.\textsuperscript{363} Cooperatives were concerned that unhappy, large producers would form their own network for exporting their coffee if they did not receive beneficial treatment, and these big producers were essential for the prestige of the cooperative as well as its ability to purchase inputs with economies of scales.\textsuperscript{364} This relationship stresses the power imbalance between small producers and large producers within the cooperative.

The Sul de Minas coffee landscape underwent both modernization and mechanization, and while these movements were interrelated, for small producers they often developed at different times. The application of extension services to cultivate coffee, as recommended for high production, including the cultivation of plants in organized rows and the intense use of chemicals, were indicative of the modernization movement. Many small farmers recognized these trends, often claiming that organic coffee did not provide high yields after a few years, and that diseases would destroy their crops if they were not grown in the chemically-enhanced

\textsuperscript{361} Manager of general operations and coffee quality, interview by author, Fazenda Diamantina, São Sebastião do Paraíso, April 21, 2011.
\textsuperscript{362} Ilson, interview by author, São Sebastião do Paraíso, April 24, 2011
\textsuperscript{363} Ilson, interview by author, São Sebastião do Paraíso, April 24, 2011.
\textsuperscript{364} Ilson, interview by author, São Sebastião do Paraíso, April 24, 2011. This topic is outside the scope of the paper and deserves its own discussion, as it changed rapidly over time and continues to be a precarious issue between cooperative and big producer relations.
Mechanization was another movement that took place over time and depended on access to capital. Oliveira estimated that mechanization happened with the larger fazendas first, and only became available to smaller sized farms gradually, as a process that occurred with irregularity but offered a competitive value and a higher quality product. Small producers were aware of mechanization, but often did not have the capital. However, by growing plants designed for mechanical harvesting, they could cut the labour cost and gain more with mechanized harvests, indicating that as modernization spread, mechanization followed.

The coffee crisis has continuously forced producers to address the debate between quality and quantity, as farmers had to adjust to the higher levels of quality that the cooperatives and the international market demanded, while focusing on maintaining enough quantity to gain from higher prices. The Brazilian experience in the coffee crisis was different, because Brazilian coffee producers aimed to both increase quantity and quality in the same movement through technology and professionalization of the farmers. However, despite the jargon, small producers still identified the struggle between producing for quantity and quality, and deciding how and when to harvest their coffee. Producers expressed the danger of focusing too heavily on one feature because the cooperatives did not pay well for very high quality coffee, nor did they pay well for poor quality coffee, and a balance had to be found. But for the producers, the decision of when to harvest and how to harvest was crucial for the quality and quantity relationship. A small-scale family farm near Guaxupe articulated the challenge they faced, indicating that when the market price was low they focused more on quality, but when it increased they focused on capturing the largest quantity they could, and harvesting early in the season (further reducing the quality) with the intention of selling their coffee before the annual

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365 Various interviews, Sao Sebastian do Paraiso, April-May, 2011.
366 José Teixeira de Oliveira, História do Café no Brasil e no Mundo (Nacional, 2004), 514.
367 Milton, interview by author, Guaxupé region, May 12, 2011.
price-cycle reduced the price.\textsuperscript{368} This example typifies the various choices that a small producer faced when deciding the balance between quality and quantity.

Over the long period of the coffee crisis other avenues to commercialize coffee emerged, but most small producers still relied on the cooperatives as the primary method. The cooperatives did not always offer the best prices for coffee, but small producers often had to commercialize their coffee immediately after the harvest to repay their credit, which coincided with the period of the year with the lowest prices. In addition, to remain an active membership according to the cooperative loyalty system, producers had to deposit some amount of coffee into Cooparaiso, and the higher the percentage of harvest deposited, the more points they would gain from the loyalty system, which could be used to reduce the cost of chemical inputs.\textsuperscript{369} In this system, producers who were dependent on coffee typically would commercialize immediately, while large producers could stock their coffee and sell whenever they desired, often because of the Funcafé program that provided credit access for coffee stocking. Small producers typically needed the income immediately and could not stock coffee and benefit from the annual price cycle. The small producer who also had an alternative employment could be more pragmatic and use other sources of income to afford stocking costs, or deposit just enough coffee to maintain membership in good standing while seeking a better price from an alternative buyer.

Over the course of the coffee crisis the credit programs were an important source of stability for coffee producers, but represented a limited form of direct intervention, particularly in regard to Funcafé, which many small farmers had little knowledge of.\textsuperscript{370} Cooparaiso president Carlos Melles authored a document that called for greater access to credit for coffee producers,

\textsuperscript{368} Name withheld, interview by author, Guaxupé region, May 16, 2011.
\textsuperscript{370} Câmara dos Deputados, Comissão Especial-, Protejamos O Café Contra A Próxima Crise (Brasília: Centro de Documentação e Informação, 2009), 1.
indicating that the costs of production were very high and that the producers were frustrated with programs like Funcafé because of its limitations and problems with access. However, while Melles assertions were correct, it appears as if the large producers gained from an expansion in Funcafé. The Funcafé loans were much larger than the PRONAF loans, indicating that a producer had to have substantial assets to access the program. Furthermore, small producers identified PRONAF as the primary program for them, but admitted that they would have liked to access Funcafé if they had the opportunity. Despite the differences between the credit programs, by 2009 there was a considerable discontent with the sustained low prices, and surveyed producers expressed a desire for Funcafé to stock coffee directly, rebuilding a singular coffee institution that could improve prices.

The cost of labour also became a crucial issue for coffee producers. The sustained period of low coffee incomes limited the ability of small producers to pay for labour in the official market, which in turn facilitated an expansion of black market labourers. On a farm producing fewer than 20 sacs per hectare, the cost of labour would be roughly 49 percent and the cost of chemicals would be around 23 percent. In the same period, a farm that produced over 30 sacs per hectare would reduce labour to 32 percent and the cost of chemicals and machines would climb to 46 percent. The large farms hired fewer workers per sac of coffee and the overall costs were considerably lower with a higher yield per hectare. Oxfam reported on the high costs of labour and the development of an active network of non-registered labourers who traveled to different regions, depending on the seasonal cycle, and worked for very low wages. Black

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371 Various interviews, Sao Sebastiao do Paraiso, April-May, 2011. The desire of small producers to access may have been a reflection of the current high market prices, and may reflect a current desire to reinvest and expand production while prices are higher, a sentiment that was expressed by many small producers.

372 Câmara dos Deputados, Comissão Especial, Protejamos O Café Contra A Próxima Crise (Brasília: Centro de Documentação e Informação, 2009), 49.

market workers were connected directly with the low coffee prices, the high cost of labour, the low ability of authorities to enforce the labour law in isolated rural areas, and the geographic-economic disparity throughout Brazil.\textsuperscript{374} A few small producers in the Sul de Minas region confirmed the existence of black market labour, but none were willing to admit employing them directly.\textsuperscript{375} However, speculatively speaking, various individuals indicated an interest in coordinating with neighbours to hire a labour crew, collectively paying a middle man who would organize, transport and ensure that the labour would be completed. Small producers were faced with very high relative costs and labour could be mitigated by seeking black market workers, relying on family labour, or further mechanizing in an effort to reduce labour costs and increase income.\textsuperscript{376}

The Development of Social Organizations and Collective Action

The low prices and market marginalization gradually drove the development of stronger social networks and greater politicization among small producers. The identity of the coffee producer was changing due to modernization and diversification processes, but there was a second movement that culminated in a greater awareness of producer communities and a degree of collective identity among coffee producers. The coffee crisis instigated poor incomes, which were the core issues in the formation of the “Movimento S.O.S. Cafeicultura” and the organization of the “Marcha pelo Café” (March or demonstration for coffee).\textsuperscript{377} The Marcha pelo Café took place in 2009 in the city of Varginha, a very important hub for coffee processing

\textsuperscript{374} Oxfam, \textit{Café do Brazil: Brazilian Coffee, The Bitter Taste of Crisis} (Florianopolis, Brazil: Agnus Printers, 2002), 17.
\textsuperscript{375} Fazenda Diamantina made it explicit that they only hired workers officially, other farmers indicated that the economy was difficult to survive and indirectly identified their consideration, and understanding that other producers would use informal labourers.
\textsuperscript{376} Conselho Nacional do Café, \textit{ Avaliação das Condições de Rentabilidade, do Perfil do Endividamento e Capacidade de Pagamento da Cafeicultura em Minas Gerais} (Outubro 2007), 9.
\textsuperscript{377} No Author, \textit{Movimento SOS Cafeicultura: Marcha Pelo Café}, (2009).
and transport in the Sul de Minas region, an area particularly harmed by low coffee prices.\textsuperscript{378}

The main objective of the movement was clearly stated: to awaken the political authorities and mobilize public opinion concerning the crisis in coffee and its impact on jobs, income and the productive chain in Brazil.\textsuperscript{379} The recognition by the March for Coffee to identify the productive chain as one of the fundamental issues was particularly telling about the relationship between small producers and the redrawn coffee industry in Brazil.

The first March for Coffee was a turning point that identified the beginnings of a collective identity among coffee producers. The march was the first clear collective demonstration that linked producer demands for change with the ‘coffee crisis’, connecting the experiences of Brazilian coffee producers with international coffee producers. The March was a massive success regarding participation as it brought together over 27 000 coffee producers from the rural areas. The movement also developed a website for distant producers to indicate their support and join the collective effort to address the lack of income and jobs in the coffee industry. The movement indicated that the despite but slow rise in prices from 2004-2008, coffee was not a profitable commodity, and something had to change. The movement clearly rejected the open market as a sustainable option, demanding a guaranteed minimum price for coffee sales and further government intervention to support coffee producers. The demands are telling because the producers expressed a clear sentiment that they want the state to be an active agent in the coffee market, even after twenty years producing in the liberalized coffee market. To connect the two cooperatives in this study, Cooparaiso supported the movement, remaining true to the ‘pronafiana’ image, while Cooxupé acknowledged the March, but did not sign the charter

\textsuperscript{378} No Author, \textit{Movimento SOS Cafeicultura: Marcha Pelo Café}, (2009).
\textsuperscript{379} No Author, \textit{Movimento SOS Cafeicultura: Marcha Pelo Café}, (2009).
and made no clear effort to support it.\footnote{Ilson, interview by author, São Sebastião do Paraíso, April 24, 2011.} Despite the cooperative participation, the movement was driven by the collective effort of the coffee producers, and the demand for change was a collective message from them.

The organization of the small producers had a historical development through the growth of the rural associations, which as mentioned before, emerged over the course of the coffee crisis. In particular, a widespread system of rural committees developed and engaged with cities and major coffee institutions. In São Sebastião do Paraíso, 12 rural associations emerged, organized along geographic lines; the model was developed in one rural area but was rapidly spread throughout many rural areas in Sul de Minas. The movement to develop rural organizations was recognized by the state, which legislated the ‘Municipal Council for Sustainable Rural Development’ (CMDRS). The council was 51 percent rural and 49 percent compiled by cities, state, and private institutions. The primary goal was to open up a space for the discussion of issues that faced rural producers, mainly focusing on jobs, income and improving the quality of life for rural families.\footnote{Federal Law, 1.591, “Conselho Municipal de Desenvolvimento Rural Sustentável” (2004).} The organizational emphasis on rural representation allowed for the focus to remain on local topics, including roads, machinery, public policy and service outreach. The rural organizations formed a hierarchical organizational structure with multiple positions, and each rural neighbourhood had two representatives in an association, from which two representatives could attend the council.\footnote{João, manager of EMATER, São Sebastião do Paraíso location. interview by author, April 25, 2011; Jose Reis, interview by author, Sao Sabastao do Paraíso, April 20, 2011.} The structure was important because it helped to improve rural organization and communication regarding local issues, and became a system for local citizens to address their concerns, contributing to the growing collective identity among rural farmers and small coffee producers.
Alternative Coffee Production in Sul de Minas

The Brazilian coffee landscape has diversified over the course of the coffee crisis, and a small number of producers have focused on producing specialty coffees, and developing ‘brands’ for local coffees. The alternative coffee movements that have grown in popularity throughout many coffee producing countries have begun to expand in Brazil as well, but they remain particularly marginalized in relative production terms. Cooparaiso and Cooxupé together have only one organic producer, with a total annual production of roughly 5000 sacs per year. The style of production that has been discussed in this paper was important in forming the perspective of producers toward coffee cultivation. For the most part, producers around Sao Sebastião do Paraíso questioned the feasibility of changing to organic and the productive ability of organic coffee. Ricardo, a small forty-year-old small producer in the region said “the body needs vitamins just like the soil.”

The opinion of the cooperatives was particularly strong regarding the viability of organic coffee. The Cooxupé manager of the specialty coffee division claimed that organic coffee yields were “very bad after three years” and indicated that there was no difference in quality between organic and chemically produced coffee. Coopariso presented a similar perspective regarding the viability of organic production, stating that organic can only produce 9-10 sacs of coffee per

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383 Cooxupé and Cooparaiso representatives, interview by author, April-May, 2011. The single producer was a member of Cooparaiso, but it was unclear if the organic coffee was sold on the conventional market or the organic market.

384 José Ricardo, interview by author, São Sebastião do Paraíso, April 18, 2011


386 Alexandro, Manager of the Specialty Coffee Division of Cooxupé, interview by author. Guaxupé, Minas Gerais, April 27, 2011.
hectare, compared to 25 or more with chemicals.\textsuperscript{387} The claims of the cooperative may not be entirely off base, but they likely undervalue the benefits of organic, particularly regarding the protection of weak soil and water sources from chemical pollution. The cooperatives certainly had self interest in chemical based agriculture as they were the primary supplier of chemicals, which accounted for a significant portion of cooperative income. In addition, both cooperatives did not seek to develop organic coffee markets and likely could not capture additional value for the coffee.

The dominance of the cooperatives and their rejection of organic coffee ensured that organic production was marginalized, but as the coffee crisis continued there was a growing sector of producer who shifted to organic coffee production. One such network developed near Guaxupé, on the border between São Paulo and Minas Gerais states, but still in the same geographic landscape of this study. This network was still seeking new members and shifting their production to organic, inciting the low prices from Coxupé as the driving factor, and indicating that their quality was already good, perhaps organic certification would help gain a better price, and they wanted to preserve the quality of the land for future generations.\textsuperscript{388}

This particular network was largely an extension of one large producer who shifted his production to organic at a considerable financial loss as production dropped significantly,\textsuperscript{389} and produced the majority of his coffee under scientific organic methods, but with little shade or intercropping.\textsuperscript{390} He networked high quality producers in the area and began to purchase their

\begin{footnotes}
\item[387] Ilson, interview by author, São Sebastião do Paraíso, April 24, 2011.
\item[388] João Fernandes, interview by author, Guaxupé region, May 13, 2011.
\item[389] This study received consistent feedback indicating that there was a considerable decline in productivity when transitioning plants to organic that were previously treated with chemicals. This effect could be attributed to the variation of coffee cultivated, as EPAMIG developed coffee designed to produce with chemical support, or evidence of higher yields with chemical production in non-shaded, non-intercropped plantations. Further research could be done on this topic.
\item[390] The terms used were passive and active, whereby active includes the application of organic fertilizers, scientific studies to balance soil nutrition and the placement of nutrient or moisture correcting trees, but the coffee is still
\end{footnotes}
conventional coffee, while offering information on the benefits of organic coffee. Slowly, surrounding small producers began to shift to organic production, and the single large farmer helped to finance the transition, and also became the point of export for the surrounding small producers. The large producer had extensive connections with international importers and relied on extensive social capital to develop trade networks. Social capital was the key to his success, as he developed direct trade relationships with cafes in Europe. However, the small producers in the network have had a difficult time shifting to organic coffee and often transformed a fraction of their production at a time, while selling their conventional coffee to Cooxupé. The organic coffee network described here, was still seeking new members and new markets, and overall the success has been limited and most producers remain linked with Cooxupé.

The large producer leading the organic network stressed that organic coffee production was very hard in Brazil, there was no government outreach and his farm has been operating at an overall economic loss on coffee. The response to continued economic stagnation was to focus on improving quality and networking high quality producers in the region, trying to beat the low coffee prices through high quality niches. However, small producers in this network identified the increases in labour and time required in organic production. Many of the small producers have relied on other sources of income, selling their labour to neighbouring farms. These small producers illustrated the risk of shifting to organic production, even when they secured a method of export and direct trade links. However, every single small producer supported fellow small producer Joao Hamilton’s claim that the “quality of the land and quality of life are better without

effectively in rows and under the sun with little or no shade cover. Passive organic referred to extensive shade cover and intercropping with natural vegetation.

chemicals. It is very difficult with chemicals and being in chemicals all day, hard on the body, land, clothes and lifestyle⁴⁹²

The Brazilian coffee landscape is so vast that almost every alternative production system exists somewhere, but this study did not directly interview fair-trade producers, but fair trade production was discussed by a few producers who were more knowledgeable about the global coffee industry than most.⁴⁹³ However, the lack of fair-trade in the region was understandable because approval into the network would require producers in the area to dismember from Cooparaiso or Cooxupé and meet the fair-trade standards excluding large producers from cooperatives. It should be noted that were a few successful fair-trade cooperatives that emerged in Minas Gerais, Coopfam being the largest small producer cooperative in the region, and they successfully entered the Fair-trade Labelling Organization in 1998.⁴⁹⁴ The organic example above helps to understand the structural challenges for producers seeking to develop an alternative trade network. Producers would have to effectively tear down their export and support structure and change the style of cultivation, which highlights the institutional barriers and producer risk in trying to access the fair-trade network.

The deregulation of the coffee industry was instantly difficult for small producers in the Sul de Minas region, as the liberalization of the market destroyed the structure to commercialize coffee, and the avenues to access services. Over time, the small producers joined the large cooperatives and accessed the emerging state institutions for advice to cultivate coffee, credit, and access to chemicals. The participation in the cooperatives resulted in higher average costs for small producers compared to the large producers, but it did provide an avenue to sell the

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⁴⁹³ The small producers identified were an agronomist who worked at Cooparaiso and a high quality coffee producer.
coffee. PRONAF became the most important credit program for small producers, allowing many of them to reinvest in coffee production, or simply afford to harvest during years of low prices. The access to credit, and collective advice from cooperative and state institutions, contributed to the modernization and mechanization of coffee cultivation, indicating a continuation of the green revolution, but also indebting many small producers. While the state institutions were strengthened and aimed to help producers, ultimately the low coffee prices cultivated greater social awareness and collective identity, which collectively operated outside the “cooperative”, and expressed demands for market intervention and guaranteed prices, pressing the state to further expand.
Conclusion

The dissolution of the ICA swept aside the regulated global coffee market and ushered in a process of deregulation and liberalization, with each coffee producing country reacting differently to the neo-liberal reform. The ensuing period experienced a renegotiation of power within the coffee commodity chain in a specific national and regional context, as institutions and individuals sought their place in the new coffee landscape, while producer incomes and coffee value declined. The resulting coffee crisis became a major factor in shaping the creation of new institutions, the division of power, and the redefined role of the state. After 1989, each coffee producing country experienced a period of change, but in this process coffee producers were moved closer to the open-market and became increasingly linked to the international price of coffee. In this context, the international coffee market became increasingly complex, while low coffee prices were linked with increasing vulnerability for producers. The coffee crisis was ultimately a crisis for coffee producers, the vast majority of whom were small scale farmers who struggled with consistently low incomes, despite producing with increasing quality. In Brazil, coffee had been one of the cornerstone commodities for the economic development of the country. Despite declining relative value, the coffee industry has remained a significant sector for rural communities; in 2001 coffee still accounted for the employment of 8.4 million people and 300 000 producers.\footnote{International Coffee Organization, “Statement by the President of the Republic of Brazil,” 3.}

The government’s role in the Brazilian coffee industry was completely changed over the course of the coffee crisis. Following the ideology of liberalization, the state was largely eliminated in the coffee sector after the dissolution of the IBC, but only for a short period of time. In a broad sense, the role of the state was rapidly shrunk, but after only a few years of deregulation it re-emerged in a different form with different tools. The low coffee prices, lack of
information, and the inability of producers to effectively engage with the open market all factored into the re-establishment of a state role in the coffee sector. The continued functioning of Funcafé demonstrates that the state never fully left the coffee sector, but the creation of the CDPC, institutions to guide research and development, and PRONAF exemplify the structural changes used by the state to re-engage. Importantly, the new position of the state was not that of middle-man between the producers and the market, but rather one that sought to supply the essential credit, information and technology that the open-market could not.

After 2000, and with the second, more severe phase of low coffee prices, the state both confirmed and expanded its role in the coffee sector. Low interest credit programs were expanded and targeted towards low-income rural producers. Support for coffee purchasing programs to ensure that producers could sell their coffee provided broad state structure towards the cultivation and sale of coffee. Furthermore, the state strengthened the power and expanded the budget of various research and development programs, aiming to “professionalize” the rural coffee producer. In this case, the Minas Gerais state institutions were utilized, their infrastructure and ability to reach producers expanded, and their focus was placed firmly on coffee production. EPAMIG and EMATER-MG became meeting points between the state and the producer, and essential locations for technical assistance. EPAMIG became the largest coffee research station in the world and specialized in developing new varieties of coffee with increased yield, quality, and disease resistances. EMATER engaged directly with producers through a strategically scattering of locations in the coffee regions, teaching producers how to apply the research they obtained from EPAMIG.

The reinvestment of the state in coffee based research and technical assistance represented a clear and direct link between the state and the producers, and a method in which to
implement the government’s vision of productive coffee production. This vision encouraged producers to overcome the market price through mechanization, technology and a scientific approach to coffee production. The Sul de Minas landscape largely followed this vision and sought to produce quality coffee cheaper than most, while firmly supporting the modernization of the coffee producer. The re-institution of the state over the course of the coffee crisis indicates that the state responded to the inability of producers to survive the open market, but their new position was one of support and limited intervention, ensuring that Brazil produced a competitive coffee. However, the open market would ultimately determine the livelihood of the producer.

The cooperatives Cooxupé and Cooparaiso became fundamental institutions in Sul de Minas after the deregulation of the coffee sector, fulfilling many aspects of the closed IBC. These cooperatives did not develop in response to an absent state, but rather had a long history of cultivation and support by the state, often acting as institutions through which the IBC had accessed producers. After 1989, the cooperatives were the primary institutions with international market connections and a stable history in the region, providing access for producers who needed a new method to commercialize coffee. The cooperatives rapidly expanded in the 1990s, becoming the largest coffee cooperatives in the world as membership swelled, particularly during periods of low coffee prices. Cooxupé operated largely as a business which sought to maximize profits and expand sales, while Cooparaiso, although similar in operation, presented an image as a cooperative representative of small producers. However, the primary aim of these cooperatives during the 1990s was to expand their purchasing of coffee, increase exports, and provide the technical assistance that was philosophically-focused on the modernization and mechanization of intense coffee production.
The perspectives and operations of the cooperatives further diverged after the second phase of the coffee crisis. Cooxupé instituted very few programs to address the dismal coffee incomes for small producers, and the programs that were put in place were often aimed at increasing production rather than improving livelihoods. Cooparaiso developed more programs aimed at increasing the sustainability of coffee production for the small producer, but the focus was largely directed through the cooperative president and state politician, Carlos Melles, who sought to bring the state back into the coffee sector. Unfortunately, his actions obfuscated the relationship between Cooparaiso as a cooperative and Melles as an elected politician. However, Cooparaiso did develop close links with the PRONAF program, allowing better access for members and, over time, the relationship between the state and the cooperatives grew closer.

Various state programs engaged directly or indirectly with the cooperatives, including EMATER, EPAMIG, SENAR, PRONAF and Funcafé. These links with the state contributed to cementing the position of the cooperatives as the fundamental support structure for coffee producers but, overall, they remained businesses focused on profit.

Both the cooperatives and the state encouraged producers to modernize their coffee production, and at the core of this perspective was a reliance on chemicals; primarily pesticides and fertilizers. In many ways, the Sul de Minas landscape continued a “green revolution” and dense coffee cultivation required the application of chemicals. The cooperatives became the primary seller of chemicals for coffee producers, and often the only trusted option for legitimate chemical products. The number of chemical sales, increasingly important to cooperative profits, expanded during the coffee crisis as farmers responded to the technical assistance. Chemical sales became a point of leverage because the large cooperatives used bulk sales to reduce the price charged by the chemical companies. This system was incorporated into membership
loyalty programs at each cooperative, designed to offer lower prices on chemicals to qualified producers and ensuring that the cooperative was the producers’ source of coffee commercialization. The expansion of coffee cultivation dependent on chemicals further entrenched the cooperatives in the industry, linking membership in the cooperatives with chemical sales in order to produce a superior coffee in a modernized method. This cycle instituted both a reliance and dependence on the cooperatives for chemicals, particularly if the producers followed the cooperatives’ advice on how to survive in a liberalized coffee market.

The reorganization of coffee institutions during the early phase of the coffee crisis left the producers with little power to change the coffee landscape. After the dissolution of the IBC many producers joined the cooperatives to ensure they could commercialize their coffee. However, most producers were unfamiliar with an open-market coffee sector and previous reliable sources of information had been closed in the deregulation movement. The immediate impact was difficult to assess, but overall the cost of producing coffee was greater than the income received by the producers. Frosts and droughts further fragmented the narrative of the coffee producers in the Sul de Minas regions, as some producers lost all their coffee trees, others lost a fraction, and still others remained untouched by the event and benefited from the higher prices. A broad movement of replanting followed the frosts, aligning with the suggestions of most coffee institutions to plant dense, mechanically harvestable coffee trees with the promise of a higher yield and better quality. The replanting and reinvesting phase was paralleled with the return of state institutions, which presumably assured producers that the market was functioning and coffee would be profitable, despite the initial poor incomes after 1990.

The second phase of the coffee crisis brought the lowest coffee prices experienced by coffee producers in Sul de Minas, and a general struggle for small producers to survive. The
sustained low coffee incomes became the norm for small producers, who identified the international price of coffee as their number one concern. Despite programs from the state and the cooperatives to support coffee producers, the low prices of the coffee crisis guaranteed low incomes and a difficulty to survive. One producer reflected on the period after 1999 as a “decade in the red”. Small producers turned to various strategies to diversify their production or diversify their income, seeking to provide some form of financial stability outside the coffee sector.

However, small producers stressed the dominance of culture in the Sul de Minas region, where coffee production was a craft passed down through the generations and price cycles were an acknowledged part of coffee cultivation. This coffee culture dominated the perspective of small producers, who continued to view themselves as coffee farmers even when the majority of their income came from another source, and the price of coffee remained feebly low.

The coffee crisis decimated the livelihoods of small producers in the Sul de Minas region, and those who continued to produce coffee became increasingly indebted and reliant on chemical inputs. As the state expanded its role in the coffee sector, the small producer in Sul de Minas had relatively good access to credit and technical assistance, which helped drive the mechanization process. But despite higher yields and a better quality product, many small producers still struggled to survive. The relationship between the cooperative and the producer was often contentious, but many small producers indicated their lack of options for commercialization and the lack of reliable sources for the chemicals their crops depended upon.

The coffee crisis was a price crisis for coffee producers, which affected small producers the most, increasing their vulnerability, forcing them to modernize and reinvest in their farms, or exit the industry. However, after a series of structural changes in the coffee landscape, Sul de Minas still remained firmly committed to the cultivation of coffee.
The small producers in Sul de Minas were not especially political under the IBC and, for the first period following the deregulation, there were only minor movements towards recognizing a common identity and collective goals. With the continuation of the coffee crisis, particularly after 2000, a broader social movement of coffee producers began to develop, largely calling for the state to provide further support for producers struggling to survive in the open market. The growing social movement represented a general discontent regarding the Brazilian coffee industry and the lack of power the producers held. It also issued a strong statement encouraging governmental involvement in the coffee market. It is important to recognize that twenty years after the deregulation of the coffee institutions coffee producers were calling for greater state support, mainly because the international market was prone to price crashes that directly harmed their livelihoods and drove many small producers into poverty.

The coffee industry did not simplify after the market became increasingly integrated and globalized, and the continued deepening of complexity hindered the ability of producers to clearly understand the new coffee market. However, the Sul de Minas narrative is different from that of other coffee regions. The role of the state in the coffee market was rapidly redefined and reinstated as prices fell and the coffee market floundered without strong support. Over time the cooperatives became the core institutions, providing important access points for exporting, inputs, technical advice and credit, but only limited support for small producers. The majority of small producers in Sul de Minas had to manage sustained low prices while relying on low-interest credit lines to implement modernization, which promoted a greater-yielding, superior coffee, grown on less land. Ultimately, coffee price was the determining factor for Brazilian producers, but as coffee prices inched up after 2004, incomes remained low because of a dependence on the unpredictable chemical market and the rising costs of production.
The process of coffee market deregulation and liberalization was a turning point in the global coffee trade, but the evidence indicates that in Sul de Minas the process was a highly convoluted course rather than a clear transition to a liberalized open-market. At the core of the Brazilian experience was the myth of national deregulation, as the state initially retracted its position then quickly recreated a place for itself in a supporting role, repositioned behind the cooperatives and producers who engaged with the market directly. Furthermore, the recreation of the state in the coffee sector came in the form of various institutions, inaugurated at different times, and often expanding the state role based on poor coffee market conditions that further confused a clear understand of the new role of the state. The relocation and re-emergence of the state support was a political process, often called for by the cooperatives and coffee producers to secure access to credit, research, and practical advice, which would otherwise have limited their competitiveness in the market. This example contributes to the discourse on liberalization in the global commodity trade, and indicated that deregulation was not an absolute end but a change in direction, albeit with serious economic consequences for producers.

The recent history of coffee in Sul de Minas reveals a continued process of mechanization and modernization of coffee production, and a consistent effort to find a competitive edge through technology. While some international coffee producing regions used mechanical harvesting and a reliance on chemicals, the Brazilian coffee sector renovated and expanded its total production, while the majority of coffee producing countries stagnated. The philosophy that emerged from state and cooperative research facilities, encouraging producers to use science and technology for a competitive edge, resonated with producers. In the Sul de Minas, small producers typically agreed that mechanical harvesting was a good thing, reducing the costs associated with hiring labourers and allowing for a higher quality of coffee through
mechanical processing. Essentially, while mechanization destroys the bucolic rural image of a small-family farmer who cultivates a small plot of coffee by hand, the positive response of producers to small machines designed to reduce costs provides clear evidence that it is a mistake to romanticize hand-harvested coffee. The process of deregulation has drawn the producer into a direct relationship with the market and mechanization was one response.

This study of coffee producers and institutions in Sul de Minas demonstrates that the conventional coffee chain was not static, but instead underwent an intense period of renewal, from both structural changes at private and public institutions to tangible changes on the ground, which brought forth a process of mechanization, increased reliance on chemical inputs and various diversification strategies, as well as a change in the identity of the ‘coffee farmer’, all within the conventional coffee chain. This response gives value to the study of commodity grade coffee because it differs from that of alternative coffee networks and, rather than completely eliminating the role of the state, the resulting low coffee prices gradually drew the state back in. However, the voice and actual power of small producers remained marginal in changing the terms of trade; they became price takers who cultivated a commodity at a loss for the majority of two decades.

Through careful analysis of three different elements of the Brazilian coffee sector, this paper provides an example of how the ‘global’ interacts with the ‘local’ through a commodity chain. The dissolution of the ICA was a decision made through international politics shaped by ideological economic policies, but these changes resonated along the chain, driving an extensive process of restructuring. The coffee crisis that was ushered in with deregulation illustrated the impact that changes in international commodity agreements have on the ground, reaching small farmers in isolated rural areas. This paper has sought to ground the process of globalization in
Sul de Minas, and illustrate how small producers struggled to survive as coffee farmers and, despite an economic rationalism against growing coffee, a deep seeded cultural commitment kept small-scale producers firmly rooted in coffee and optimistic that the economic coffee price cycle will turn once more.
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