MASTER'S THESIS

WHEN ETHICS ARE GOOD FOR BUSINESS

A case study on the strategic importance of direct trade for three speciality coffee roasters in Copenhagen

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ABSTRACT

International roasters and large retailers are driving global coffee commodity chains since the 1980s, retaining most of the value created in the chain in coffee-consuming countries. Recently, independent micro roasters are challenging the status quo with new demands on quality, retail strategies and business ethics. Characteristic for the "*third wave of coffee*" movement is the ambition to create unique taste experiences from selected coffee beans of premium quality. Additionally, these roasters share a strong personal conviction that ethics and quality go hand in hand: Coffee growers should receive a fair share of the value created in the coffee supply chain.

The coffee commodity market is not able to meet these new demands to ethics and coffee quality. As a result, progressive roasters turn to direct trade. In direct trade chains roasters face high complexity of transaction, low ability to codify the transaction and high supplier capabilities. They turn to relational governance to coordinate the activities in the chain. Direct trade has previously been understood as an ethical alternative to commodity trade. Through in-depth interviews with three direct trade roasters in Copenhagen, this study finds that there is a strategic dimension to direct trade that has previously not been considered. The case companies use direct trade strategically to (a) identify and secure exceptional quality coffees; (b) adopt the trade relationship to differences in supplier capabilities; (c) communicate product value to consumers; and (d) manage volatility and change in the global coffee market.

KEY TERMS

Direct trade; Global value chain analysis; Value chain governance; Relational governance; Ethical trade; Coffee; Third wave coffee; Speciality coffee; Sustainability; Coffee paradox.

KEY TERMS AND DEFINITIONS

Coffee paradox	The contradiction that coffee prices in consuming countries increase while the share of the final retail price paid to coffee growers falls (Daviron & Ponte, 2005).
Co-operative	Association of farmers who voluntarily work together for their mutual social and economic benefit.
Cupping	Coffee testing technique used by roasters to evaluate quality, coffee aroma and the flavor profile of a cup, also called the cup profile.
Cup of Excellence	Cupping competition and auction system to identify the best micro lots. Organized by the US-American NGO Alliance for Coffee Excellence.
Direct trade	Alternative trade model to conventional coffee trade, with close contact between roaster and coffee grower with the aim to produce and source premium quality coffee. Direct trade is not a label or internationally registered trademark. No common understanding of the concept in praxis or academia.
Farm-gate price	Price paid to the coffee grower for the produced coffee excluding export charges.
Global value chain	Based on Gereffi et al. defined as a *"process by which technology is combined with material and labor inputs, and then processed inputs are assembled, marketed and distributed"* (ibid. 2005). Also called commodity value chain.
Governance	Refers to governance in the supply chain, e.g. a situation, where some firms in the chain work according to parameters and standards set by another firm.
Mainstream coffee	The term is used to describe roasted coffee that is of average quality, mass-marketed and mass-produced.
Micro lot	Type of single-origin coffee from a single field on a farm, a small range of altitude and specific day of harvest.
Single-origin	Describes coffee beans from a single known geographic origin that is not blended with beans from other origins.
Speciality coffee	The term is used to refer to coffees with a differentiating attribute in terms of the product or the way it is produced (i.e. premium quality or organic), and coffees that are presented differently (i.e. with steamed milk).
Third-wave of coffee	Movement to produce premium quality coffee that started in the USA in the 1990s. The third wave refers to a new way of producing, trading and drinking coffee after filter coffee and espresso based beverages.

LIST OF ABBREVIATIONS

CSR	Corporate social responsibility
GVC	Global value chain
ICA	International Coffee Agreements
ICO	International Coffee Organization
SCAA	Speciality Coffee Association of America
SCAE	Speciality Coffee Association of Europe

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1. INTRODUCTION

Coffee trade and retail are traditionally dominated by large roasters and their signature blends. When consumers buy coffee that is branded by one of the large international roasters or coffee chains, they trust the roasters' brand reputation as a proxy for quality. Consumers pay premiums for branding, packaging, sustainability certifications, café ambience and service. The material quality of the coffee beans is not passed on to the end-consumer. Conventional coffee chains are controlled by international roasters, who also retain most of the generated value. In the literature the inequalities in value distribution along these coffee supply chains are described as the "coffee paradox": While the prices for coffee consumed in cafés in the Global North are increasing since the 1970s, farmers in the Global South receive similar farm-gate prices for their beans as they did in the 1950s.

Recently, independent coffee roasters are challenging the status quo with new demands on quality, retail strategies and business ethics. The movement is also called "the third wave of coffee" referring to a new way to trade, prepare and drink coffee following filter coffee and espresso based beverages. Characteristic for this new movement in coffee is the ambition to create unique taste experiences with the goal to provide consumers with the opportunity to "express their individuality" through their coffee purchases. The fine wine industry with the focus on product origin and taste nuances functions as a role model.

The conventional coffee market is not designed to facilitate the trade of small volumes of selected high quality coffee. For one, the commodity market does not reward growers for producing exceptional quality. Additionally, the institutions to identify quality coffee beans and unique taste profiles are missing. Consequently, it is a challenging market for roasters who want to offer unique taste experiences to their customers.

In search for an alternative to the conventional trade structures, progressive roasters started buying coffee directly from farmers in order to work with them to improve conditions in production countries and to ensure a constant supply of high quality coffees. In theory, this alternative way of trading connects the two most important actors in the coffee supply chain concerning quality - coffee roasters and coffee farmers - who are in traditional trade separated by geographic location, language barriers, and intermediary traders. This alternative trade model was called *"direct trade"*. It is characteristic for the quality-obsessed roasters of the third wave coffee movement.

Trading directly requires a high degree of commitment and investment. Roasters face high searching costs to identify suitable suppliers and high monitoring costs to ensure that quality expectations are met. Building personal ties requires high investments, for example in the form of travels to meet the supplier in person. Direct trade seems to be a costly alternative to conventional coffee trade only justified by the personal conviction of a small number of coffee fanatics.

I am convinced that there is more to direct trade than meets the eye. In this study I will explore the concept focusing on the motivation that drives coffee roasters to adopt direct trade. The main research question guiding this study is therefore: *Why are speciality coffee roasters sourcing directly from suppliers?* Understanding the roaster's motivation to engage in direct trade is directly connected to understanding the governance of direct trade supply chains. Thus, this study will also address the question: *How are direct trade chains governed?*

The to-date existing studies on direct trade are not sufficient to understand the governance structure of a direct trade relationship between roasters and suppliers. So far, global value chain thinking has not been applied to analyze direct trade even though it provides the necessary analytical tools to do so. Global value chain theory has previously been used to describe conventional coffee commodity chains, but not in the context of direct trade chains. Global value chain thinking is a proven approach to understanding governance in inter-firm relationships. Applying it to direct trade will therefore give valuable insights on the governance structure in roaster-supplier relationships, which also provides the basis for exploring the roaster's motivation to trade directly. Conversely, the study adds to the debate on governance and power dynamics in global value chains by exploring this extreme form of chain governance in depth. This study closes a gap in the existing literature by exploring the dynamics of governance in direct trade chains, a field that has not been studied so far due to the novelty of the topic.

The remainder of this study falls into five parts. The next chapter will give an introduction to global coffee trade and the market conditions that gave rise to the speciality coffee boom and the direct trade model. I will also explore the existing academic work on traditional coffee chains and direct trade. The chapter closes with a review of the "Theory of global value chain governance" framework that was developed by Gereffi, Humphrey & Sturgeon in 2005. The framework draws on three variables - complexity of transaction, ability to codify transaction and supplier capabilities - to describe various forms of chain governance. I am dedicating one subchapter to the discussion of these variables, as they form the basis of my research design and analysis. The research strategy and design are presented in the succeeding methodology chapter. This chapter concludes with a presentation of the interview guide that was developed for the in-depth interviews with the roasters and a discussion of issues of validity and reliability of the research approach. The following analysis chapter is divided into two subchapters. First, representative case studies with leading companies in the field are presented. For each of the case companies there is a case profile portraying the business model, product portfolio and supplier base of the company. Second, I will analyze how the three case companies work with their suppliers. The description of the observed governance pattern in the direct trade supply chains is based on the interviews with the roasters. The following discussion of the findings is split into empirical and theoretical implications and presented in the succeeding chapter. The paper closes with a conclusion, which sums up the findings of the study and gives a brief outlook to emerging trends in the speciality coffee market and recommendations for further research.

This study contributes to the academic debate in two ways. First, the Gereffi et al. framework for global value chain governance was tested by exploring an extreme form of value chain governance. The analysis has confirmed that the conditions that lead to relational governance in the value chain are indeed high complexity of transaction (Variable A), low ability to codify transaction (Variable B) and high supplier capabilities. Second, the study revealed that academia has explored direct trade in a way too narrow to grasp all dimensions of the concept. Up to now, direct trade has been understood as an alternative to ethically motivated trade models like Fairtrade and Organic, which neglects its strategic dimension.

2. CONTEXT AND LITERATURE REVIEW

Direct trade was born out of frustration with the limitations that quality-savvy roasters experienced in conventional coffee trade structures. Therefore, one first has to understand global coffee trade in general, before being able to explore governance in the direct trade value chain specifically. In this chapter I will introduce the global coffee value chain and the context that led to the emergence of speciality coffee and direct trade chains. The chapter is divided in four parts: Firstly, I will introduce global coffee trade flows and the different activities in the value chain. Moreover, I present the concept of the *"coffee paradox"*, which is the theoretical contradiction direct trade is addressing. Secondly, direct trade will be defined as a new mode of coordination in the chain. Furthermore, I will look at the development of the concept during the last years and in the Danish market specifically. Thirdly, I will review the literature on coffee trade with a special focus on global value chain analysis. This leads to, fourthly, a critical review of the way direct trade has been approached by academia and the proposal to apply the framework of value chain governance developed by Gereffi et al. (2005) to describe the governance of direct trade chains.

2.1 GLOBAL COFFEE TRADE

Coffee is not the same product around the world: While coffee is produced as a commodity in the Global South, it is a lifestyle product to consumers in the Global North (Daviron and Ponte 2005). Only two producing countries, Brazil and Ethiopia, also have a significant domestic consumption. Thus, global coffee trade flows mainly span around the world from South to North.

Coffee can be grown in areas with warm climate and seasonal rains. Coffee plants do not tolerate sudden temperature shifts or frost. Hence, the right conditions for coffee cultivation are found in the tropics between latitudes 25° North and 25° South of the equator (International Coffee Organization (ICO) 2015).

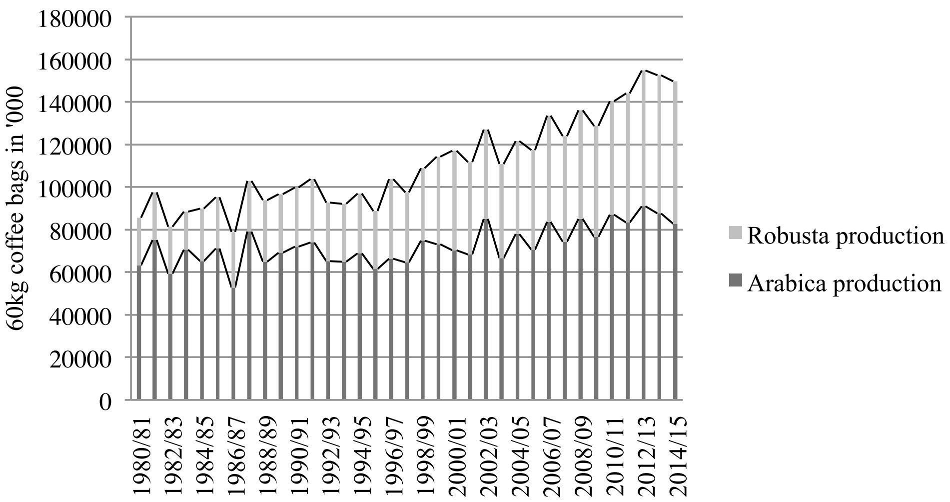
Global trade flows

In the 19th century, coffee cultivation spread from the West Indies to Latin America. Brazil quickly emerged as one of the main producers providing for 75% of the global harvest at the turn of the century. Colombia started to harvest coffee in the 1920s. Around the same time, African countries entered the global coffee trade with the British colonies Uganda and Kenya being forerunners on the continent. Eventually, Asia became a player in the global coffee market with Vietnam experiencing a production boom in the beginning of the 21st century (Daviron and Ponte 2005).

Today, around 60 countries in the Global South are growing coffee for export. However, three countries alone have in the last years produced up to 55% of the traded coffee: Brazil (32-35%), Vietnam (12-13%) and Columbia (8-9%) (International Trade Centre 2011). In 2013/14, global consumption was 142.4 million 60 kg bags with the European Union being the region importing and consuming the most coffee globally. The USA is the second largest importer (United States Department of Agriculture 2014).

Figure 1: Global coffee production for Arabica and Robusta 1980-2014 in Thousand 60kg bags

Growing global coffee production, especially Robusta



USDA (2014) Coffee World Production.

Coffee is made from beans that are found in the cherries of the caffea plant. There are many different caffea species, but today only two of them are traded: Coffea arabica (Arabica) and Coffea canephora (Robusta). While Arabica grows best in the highlands of tropical zones, Robusta can be grown at lower altitudes. Robusta tolerates hotter and drier climates and is more resistant to pests and diseases than Arabica. The share of Robusta beans in global coffee trade has been growing steadily with Indonesia, India and later Brazil and Vietnam focusing on the cultivation of this species. Today, Robusta makes up around 45% of the world coffee production (United States Department of Agriculture (USDA) 2014). The share of Robusta coffees of global coffee trade is likely to increase further, curtsey of climate change. With global warming the number of droughts and unusual weather conditions that favor coffee plagues like the fungus coffee rust is expected to increase (International Coffee Organization 2014; Leber 2014).

In general, Robusta is bitterer, less refined in taste and has more caffeine than Arabica. Some of the harshness of Robusta varieties can be weakened through processing, i.e. steam cleaning. However, few roasted coffees are made up of pure Robusta. Traditionally, roasters blend beans of diverse characteristics and quality to reduce the dependency on a specific region or supplier. By adjusting the composition of different coffees, skilled roasters can create the signature aroma of a specific coffee brand even when inputs change (Daviron and Ponte 2005).

Most trade from producing to consuming countries consists of green coffee beans or instant coffee. Roasted coffee is mainly traded between and in consuming countries. This trade pattern has emerged because roasted coffee looses its freshness and aroma quickly, while green and instant coffee can be stored for a longer time (Daviron and Ponte 2005).

The global market for coffee can broadly be divided in four quality categories:

- Exemplary quality: Coffees with a very fine or unique cupping profile and of limited availability that are mostly sold as single-origin coffee. These coffees are mostly roasted by smaller independent roasters and sold in speciality shops.
- High quality and premium brands: This group includes coffees with minor defects, well prepared organic coffees as well as washed Robustas. These coffees are roasted and sold by both independent roasters and large international roasters in speciality shops and supermarkets. They are sold as single-origin or blend.
- Mainstream quality: Coffee of average quality that is well processed, but has some defects. This category includes many Robustas and makes up of about 85%-90% of global trade.
- Undergrades and lowgrades: This category describes coffees that do not meet criteria to be included in any of the other groups (International Trade Centre 2011).

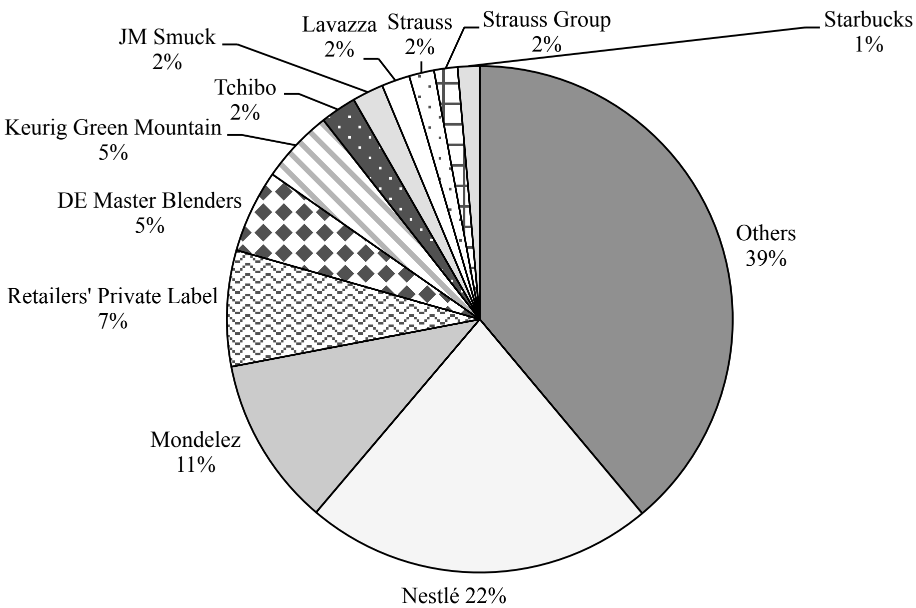
The quality of green coffee beans varies enormously, not only from farm to farm but also between harvest seasons. Moreover, different producing countries attach value to different quality traits. Among speciality roasters the 5-grade Green Coffee Classification scheme by the Specialty Coffee Association of America is popular, which grades beans based on the percentage of defects and the cupping profile (Speciality Coffee Association of America 2015). There is no single price for coffee, because coffee is not a homogeneous product. Coffee is a product of nature with fluctuating availability and quality. Thus, physical coffee prices are extremely volatile (International Trade Centre 2011). While international traders use futures markets to hedge the risk inherent in fluctuating physical coffee prices, this tool is not an option for small farmers living from one harvest to the next (Lewin 2004).

During the last 50 years, the balance of power within the global coffee industry has shifted from producers towards buyers. From 1962 to the 1980s, International Coffee Agreement (ICA) quotas regulated coffee supply and kept prices relatively high and stable (International Coffee Organization (ICO) 2015). The quota system collapsed in 1986 under increasing price pressure due to changing patterns of supply and demand. As a consequence, producing country regulators lost much of their power to international traders and roasters. Market liberalization, price volatility and increased income vulnerability of producers characterize the coffee market since the collapse of the ICA quotas.

The power vacuum created by the discontinuation of the quotas was filled by international roasters. Since the 1980s, international roasters have steadily increased their power to shape the global coffee trade. In global value chain analysis, they are described as the actors *"driving the chain"*, which means that they are the ones to define the conditions under which coffee is traded globally. Today, the largest roasters are Nestlé SA and Mondelez International Inc. (former Kraft Foods). Nestlé's most popular brands are Nescafé with 16% global market share and Nespresso (3%). Mondelez owns among others the brands Jacobs, which makes up for 3% of the global market, Carte Noire (1.5%) and Maxwell House (1%). See Appendix 01 for a list of brands owned by the three largest international roasters.

Figure 2: Market share international roasters in percent

The five largest international roasters control 50% of the market



Euromonitor International (2015) Hot drinks company shares by global brand owner.

While roasters continue to dominate market share, international retailers are now on the rise to becoming powerful actors and shaping the way coffee is produced and consumed around the world. McDonalds, Walmart and Starbucks are emerging as a driving force in the market for higher quality coffee. The interesting thing is that they are doing so by using sustainability as their competitive advantage (Elder, Lister, and Dauvergne 2014).

Until the mid 2000s, retailers carried only nominal stocks of sustainable coffees and scholars predicted that sustainable coffees would remain a niche market (C. M. Bacon et al. 2008; Ponte 2002). More recently, retailers have increased shelf space for certified brands and moreover certified their own brands (Daviron and Vagneron 2011; Elder, Lister, and Dauvergne 2014). Additionally, retailers are introducing their own standards, examples are Starbuck's Coffee and Farmer Equity Practices (CAFE) standards and Nestlé's Nespresso AAA Quality program.

This *"rise of big retail sustainability"* is bringing certified coffee to mainstream markets (Elder, Lister, and Dauvergne 2014). Elder et al. argue that retailers are strategically embracing sustainability to built consumer trust, manage quality and rebrand their private label brands (ibid. 2014). Retailers are encouraging customers to view sustainability and coffee quality as intrinsically interlinked and profit from the higher price margins associated with speciality coffee. Additionally, sustainability standards are used as a quality management tool to achieve a greater consistency in coffee quality across suppliers (Elder, Lister, and Dauvergne 2014).

Although sales of certified coffees have seen rapid growth since 2004, sustainable coffee only accounts for about 8% of the volume of global green coffee exports (Elder, Lister, and Dauvergne 2014). In comparison to other commodities, for example corn or sugar, the way coffee is consumed has changed little in the last 100 years. The main innovations have been the introduction of the roasting machine, which led to the emergence of the coffee roaster profession in the 1900s, and the introduction of soluble instant coffee in the 1930s. Since the turn of the century coffee roasters and retailers have further diversified their product offerings and many new ways to drink coffee have emerged. Examples are the spread of Italian-style coffee drinks and the café atmosphere, mainly driven by Starbucks (Daviron and Ponte 2005). Yet, these innovations have only changed the way coffee is drunk, but not the way the commodity coffee is used. Coffee is still mainly used to prepare a hot drink and to provide caffeine content for soft drinks or medicine (Daviron and Ponte 2005).

From bean to cup: Activities in the coffee value chain

Before being exported, coffee goes through various steps of primary processing in the producing country. Both Arabica and Robusta plants grow cherries containing two flat seeds, the coffee bean. After being harvested, the bean inside the ripe coffee cherry has to be separated from the skin and pulp that surround it. For this purpose, the ripe cherries can either be pulped, fermented, washed, dried and cleaned (wet processing) or dried and hulled (dry processing). Cleaning, sorting, grading and packaging are generally carried out by the co-operative or an exporter, as most farmers do not have the facilities to carry out those steps (Daviron & Ponte, 2005). See Appendix 2 for a list of supply chain activities for dry-processed coffee.

Traditionally, beans from a number of different lots or farms are thrown together and sold for the same price. Thus, the majority of farmers does not know where or how their coffee is going to be roasted and consumed (Interview Kurt Dalsgaard 16.01 2015). However, some co-operatives and roaster have started to process beans from a specific lot separately to be able to identify its origin. Coffee that is not blended and can be tracked back to the farmer and land that produced it, is called single-origin coffee. After being graded, the green beans are packed in 60kg bags and then exported.

In the importing country, the first activity that is carried out at the roaster is usually blending. Large brands like Nestlé and Tschibo use blending to create the same signature aroma in every pack of coffee. Most coffee is roasted in the country where it is consumed (87%) or imported from other consuming countries (International Trade Centre 2011).

The ICO estimates that 75% of all coffee consumed globally is roast and ground. The rest is soluble coffee, which is common in East and South-East Asia, and in the UK. Roasted coffee is sold as whole beans or in ground form and is packaged in various types and sizes of cans and bags. Roasters sell to two market segments: The retail market, where coffee is purchased for home consumption and the wholesale market with coffee shops, restaurants, and offices as customers. In most countries the retail market accounts for up to 80% of the overall market (International Trade Centre 2011).

Coffee consumption and the "Latte revolution"

Coffee consumption is generally increasing with rising income, but flattens at the highest income levels (Daviron and Ponte 2005; International Trade Centre 2011). In Europe, the Nordic countries have the highest consumption with around 10kg per person per year (International Trade Centre 2011). Although most coffee is still consumed in the home, "*having a coffee"* is increasingly becoming an opportunity for people to socialize outside the home in one of the growing number of coffee shops.

Over the last years, coffee consumption in the two largest importing markets - Europe and the USA - has stagnated, despite the growing popularity of coffee chains like Starbucks. Starbucks has in only 30 years of existence re-invented coffee as a life-style product: The company made espresso-based beverages popular first in the US and soon also internationally and is today the largest coffeehouse company in the world with more than 20,000 stores in 2014 (Starbucks Coffee Company 2015). Moreover, other coffee chains have copied the concept, for example Costa Coffee in Denmark. Ponte describes the rise of the coffee chain culture as a *"latte revolution"* suggesting that Starbucks and similar coffee chains actually sell more milk than coffee:

> "Coffee bar chains sell an ambience and a social positioning more than just "good" coffee. In short, the global coffee chain has gone through a "latte revolution", where consumers can choose from (and pay dearly for) hundreds of combinations of coffee variety, origin, brewing, and grinding methods, flavoring, packaging, social "content", and ambience. At the same time, international prices for the raw product ("green" coffee) are the lowest in decades" (Ponte, 2002: p. 1099).

A trend going hand in hand with the *"latte revolution"* is the growing importance of labels like Fair Trade and organic in coffee. Coffee chains, but also traditional roasters like Nestlé, are increasingly trying to improve the value proposition of their products by having it certified as organic or fair trade, as certifications are becoming increasingly important to consumers.

The rise of the speciality sector

Although consumers perceive certified coffees to be of higher quality, labels like Fair Trade and organic only address the way that coffee is grown and traded, but say nothing about the taste of the product. However, especially in urban centers in the US and Europe consumers are increasingly looking for taste experiences in coffee. This gap is addressed by a growing number of independent roasters and speciality coffee shops that communicate premium taste as the main differentiator of their products.

Coffee can be produced, prepared and consumed in many different ways raising the question: what is *"speciality coffee"*? The term originated in the US, where it was initially used to describe the range of coffee products sold in dedicated coffee shops, in order to differentiate them from the coffee generally available in supermarkets. However, with the expansion of coffee shops and their product range, the term has loosened. Today, specialty describes both the beverages sold in cafés and high quality beans sold in wholesale. The International Trade Center states that speciality coffee is today

> (...) "a generic label covering a range of different coffees, which either command a premium price over other coffees or are perceived by consumers as being different from the widely available mainstream brands of coffee" (International Trade Centre 2011).

Accordingly, speciality coffee means different things to different people and can describe everything from a single origin high-quality coffee to a flavored espresso drink (Daviron and Ponte 2005; International Coffee Organization (ICO) 2015).

The Speciality Coffee Association of America (SCAA) defines speciality as coffee *"of a unique cupping profile that has not more than 5 defects per 300 grams"* (Speciality Coffee Association of America 2015). While this definition is based on the quality of the green beans, the Speciality Coffee Association of Europe (SCAE) focuses on the end product. Speciality is defined as a *"crafted coffee-based product (...) which is judged to have a unique quality, a distinct taste and personality different from and superior to the common coffee beverages offered"* (SCAE 2015).

The divergence between the two definitions is exemplifying the lack of a common understanding of what *"speciality"* means - across the Atlantic, but also in academia. Even though there is no over-reaching consensus, many authors use the term to distinguish alternative models of coffee consumption from the mainstream. However, a distinction between *"mainstream"* and "*speciality"* coffee is only useful if it is based on the nature of the product and not the size or turnover of the roaster.

Thus, in this study, the term *"mainstream"* is used to describe the roasted coffee that is of average quality, mass-marketed and mass-produced. This accounts for around 85%-90% of all roasted coffee. Mainstream coffees are usually sold as blends in supermarkets. Roasters that are predominantly active in producing mainstream coffee are referred to as mainstream roasters.

Contrarily, the term *"speciality"* is used to refer to coffees that are different from the mainstream. This includes coffee beans with a differentiating attribute in terms of the product or the way it is produced (i.e. premium quality or organic), but also coffees that are presented differently (i.e. with steamed milk). Speciality coffees are often of limited availability and produced by smaller roasters with limited turnover.

Without a clear-cut definition is it is difficult to assess the market size for speciality coffee. Based on the definition put forward by the SCAA only 5% of the green coffees imported to the US would classify as speciality coffee (International Trade Centre 2011). If speciality is understood in wider terms - including coffees with slightly more defects, certified coffees and Starbucks lattes - the market share of speciality coffee is estimated to be around 10% in the US and Europe.

The coffee paradox

For many exporting countries coffee contributes significantly to the national economy and foreign exchange earnings. Moreover, coffee production provides for the livelihood of an estimated 26 million people in the producing countries (International Trade Centre 2011). Thus, when coffee farmers were facing the century's lowest coffee prices in real terms in the early 2000s, it also had a significant impact on their countries' economies and their personal livelihoods. At the same time that farmers were struggling to survive, coffee sales in consuming countries increased and consumers are paying higher and higher prices per cup. Daviron & Ponte (2005) call this contradiction the *"coffee paradox"* arguing that

> "(...) farmers are getting a decreasing share of the final price paid by consumers for coffee. This means that the value added (and rent extracted) along the chain takes place increasingly in consuming countries. Consumers pay proportionally less for the material attributes of coffee quality, and more for their symbolic and in-person service attributes - including branding, packaging, consumption ambience and sustainability content" (Daviron & Ponte, 2005:204).

Coffee growers' share of the final retail price has fallen from 20 per cent in the 1990s to below 10 per cent in the early 2000s (Elder, Lister, and Dauvergne 2014; Talbot 1997). Moreover, empirical studies show that certifications do not necessarily reduce the inequalities in the coffee value chain. Rather the contrary: Although the farm-gate price paid for certified beans is higher in absolute terms, the share of the retail price that is passed on to the farmer is smaller in certified chains compared to conventional chains (Daviron and Ponte 2005). Thus, Daviron & Ponte argue that

> "(...) it is not the local traders, exporters or international traders handling the material content of the 'generic' coffee product who are making a killing in the value chain. It is the branded roasters and, to a lesser extent, retailers" (ibid., 2005:211).

Recently, supermarkets and food chains have been gaining more power in coffee supply chains by growing the market for sustainability certified coffees. Coffees certified as Organic or Fairtrade are sold with a mark-up compared to conventional coffees, but retailers are successfully absorbing most of it (Elder, Lister, and Dauvergne 2014).

Why is value distributed so unevenly along the coffee chain? The answer is to be found in the structures that govern mainstream coffee trade. Large roasters have been able to maintain a dominant position in the chain by disconnecting consumers from producers. They do this by managing information asymmetry about coffee quality. Roasters buy beans from international traders with complete knowledge of quality, i.e. the number of defects of the beans. After roasting and blending the beans, the coffee is sold under a brand name, which functions as a proxy for quality. However, mainstream coffee brands do not reflect the quality of the beans, but the positioning of the brand (Ponte and Gibbon 2005). As a result, consumers know almost nothing about the quality or origin of the beans they are buying in the supermarket.

Moreover, mythologies have been created around coffee blurring the connection to the producer. An example is the term *"Italian coffee"*: Describing a specific blend of coffee as Italian obscures the fact that the coffee was actually grown in the Global South, not in Italy (Daviron and Ponte 2005). Contrary to wine, mainstream coffee roasters do not brand the coffee in regards to its origin. By blending beans from different origins to achieve one signature flavor, roasters are actually minimizing the influence of the beans' origin on the perceived quality of the roasted coffee.

Theory suggests that the key to adding more value upstream is to enable consumers downstream to value quality attributes that are connected to the producer of the product (and not the roaster). Such quality attributes can be a specific taste profile or growing method. A common method to communicate production standards is the use of certifications and labels. The most common labels in coffee are Fair Trade, Organic, Utz Kapeh Good Inside Certified, and Rainforest Alliance (Thurston, Morris, and Steiman 2013).

While certifications can help farmers to increase the value of their products, the cost of changing processes to obtain a certification is often not off-set by the premium paid for certified beans. Moreover, research shows that retailers are leveraging sustainability certifications to increase their own profit margins. Certifications do not necessarily translate into greater benefits for producers (Elder, Lister, and Dauvergne 2014). One might even argue that labels increase the distance between consumers and producers as trust in the certifier is replacing the trust in the producer when quality becomes institutionalized in a label or certification.

In sum, the coffee paradox describes the divide between producers that are not rewarded for quality and consumers that are looking for taste experiences, but pay a milk-premium instead. To overcome the paradox structures need to be created that enable producers to communicate the special value of their product to buyers and consumers.

2.2 DIRECT TRADE

Coffee trade and retail are dominated by large roasters and their signature blends. However, since the 2000s small independent roasters and individual retail outlets are emerging as new actors in the coffee business and they are challenging the status quo with new demands on quality, retail strategies and business ethics. Refining consumers taste preferences and giving consumers the opportunity to "*express their individuality*" through their coffee purchases is the goal (Peterson 2013). The role model is the fine wine industry, where consumers have been educated to look for specific harvest years, certifications and origins (Interview Soren Sylvest 26.03 2015; Peterson 2013).

From "Latte revolution" to "Bean revolution"

Quality-obsessed roasters and baristas were soon confronted with an inability to consistently obtain a level of quality that would give them a competitive advantage in an increasingly taste-driven market. Hence, some roasters started to buy coffee directly from farmers to work with them to improve conditions in production countries and to ensure a constant supply of high quality coffees (Watts, 2013:121).

Independent coffee roasters in the US introduced the term *"direct trade"* in the mid-2000s to describe a new, more direct way of sourcing coffee from farmers. Intelligentsia Coffee Inc. and Counter Culture Coffee were the first roasters to use the term (Intelligentsia Coffee Inc. 2015).

In theory, direct trade is a way to connect the two most important actors in the coffee supply chain concerning quality - coffee roasters and coffee farmers - who are in traditional trade separated by geographic location, language barriers, and intermediary traders. Traditionally, mainstream roasters are buying coffees *"off the shelf"* from traders making it difficult to identify premium quality beans and to access information about the origin and production processes (Watts 2013). Direct trade is a reaction to this lack of traceability and transparency in the conventional coffee trade (Watts, 2013:121).

Intelligentsia Coffee Inc. has defined six criteria for what makes up direct trade for the company, which are often used as reference point to define direct trade:

1. "Coffee quality must be exceptional.
2. The grower must be committed to healthy environmental practices.
3. The verifiable price to the grower or the local coop, not the exporter, must be at least 25% above the Fair Trade price.
4. The grower must be committed to sustainable social practices.
5. All the trade participants must be open to transparent disclosure of financial deliveries back to the individual farmer.
6. Intelligentsia representatives must visit the farm or coop at least once per harvest season (...)" (Intelligentsia Coffee Inc. 2015).

However, *"direct trade"* is not a label or internationally registered trademark. Hence, there is no widely accepted definition of the term. The absence of a common understanding has led to a situation where many roasters state that they trade directly, but they do so with varying levels of directness (Interview Peter Dupont 21.01 2015; Interview Soren Sylvest 26.03 2015).

In Denmark, the situation is different. Inspired by Intelligentsia's trade model, the Danish company The Coffee Collective decided in 2007 to register the term DirectTrade® as a trademark in Denmark. The Coffee Collective has condensed the definition into two criteria:

1. "The producer is paid at least 25% more than the Fair Trade price.
2. We visit the producer every year" (The Coffee Collective A/S 2015).

As a consequence - in Denmark - the trademark DirectTrade® is protected and theoretically only those roasters that follow the two criteria defined by The Coffee Collective are allowed to call their trade model *"direct trade"*. Nevertheless, there are other roasters that buy directly from producers and communicate this to their customers, but do not use the official trademark. The small shop roaster Kaffevaerk in Copenhagen is an example. Thus, there is still an insecurity among roasters and consumers about what the term describes exactly and who is allowed to use it (Interview Kurt Dalsgaard 16.01 2015).

More recently, the direct trade concept has spread to the chocolate industry and led to the formation of so-called *"bean-to-bar"* companies. Examples are the US-American companies Askinosie chocolate, Dandelion chocolate and Taza chocolate. The overall approach is the same: The chocolate manufacturers visit the cocoa growers regularly and pay above the Fair Trade price to source premium quality cocoa (Askinosie Chocolate 2015).

Direct trade in the Danish market

Denmark is a coffee drinking nation with a preference for black filter coffee made from freshly ground coffee. The four largest roasters Sara Lee, Kraft Foods, BKI and Peter Larsen dominate the market with a cumulated market share of 90%. The rest of the market is shared between 15-20 micro roasters who sell mainly in specialty shops and cafés (Euromonitor International 2014b).

Since 2008, coffee sales in Danish retail are declining, while per capita spending in chained coffee shops and independent cafés grows (Euromonitor International 2014a). The Danish speciality coffee chain Baresso has been successful in selling espresso beverages under the absence of global giant Starbucks. The number of independent cafés is also growing. Per capita spending in independent cafés in Denmark actually increased by 13% over 2008-2013, while it declined in the rest of Western Europe (Euromonitor International 2014a). Although the offerings and concepts of these independent outlets differ greatly, the trend still shows that independent outlets seem to be better at communicating value in coffee than mainstream retail brands.

Danish consumers generally have a high interest is sustainability and certified products. Coffee is no exception: Since 2005, the amount of certified coffee sold in Denmark has increased each year (Euromonitor International 2014b). As a reaction, most retailers now offer certified coffees. The labels European Organic and Fair Trade are most trusted among Danish consumers: 75% agree that these labels are a guarantee for sustainability in agriculture (Valeur 2013).

Following the example of the US-American roasters Intelligentsia and Counter Culture, independent Danish roasters started to use the term direct trade in the beginning of the century, but other roasters started to source (part of) their beans directly from farmers as early as 1997 (Interview Kurt Dalsgaard 16.01 2015; Interview Soren Sylvest 26.03 2015).

Today, the three largest direct trade roasters in Denmark are The Coffee Collective, Chokolade Compagniet (Estate Coffee) and KONTRA Coffee. Together they roast about 300 tons annually, which is about 1.5% of the 21.000 tons of coffee consumed in Denmark in one year (Interview Kurt

Dalsgaard 16.01 2015; Interview Peter Dupont 21.01 2015; Interview Soren Sylvest 26.03 2015). Considering that there are also a number of smaller roasters that trade more or less direct, I estimate that the market share of directly traded coffee in Denmark is approximately 2% of overall coffee consumption in Denmark.

2.3 THEORETICAL APPROACHES TO THE COFFEE COMMODITY CHAIN

Due to the relatively simple global trade flows (from South to North), the coffee value chain has been a popular case in point to study the value distribution along global commodity chains. The most commonly used academic approach is global value chain (GVC) analysis because this approach allows scholars to connect individual trade relationships in the chain to a broader perspective on the political economy and development aspects.

In the following chapter I review the developments in global value chain thinking and how this approach has been applied to the coffee industry in general. Then I focus on direct trade specifically. Direct trade has been approached by academia as one of many initiatives to improve sustainability and ethics in commodity supply chains. Thus, it has been studied in line with certifications like Fair Trade, organic, and CSR initiatives. I argue that this approach is not sufficient to understand the governance pattern in direct trade chains. Neither does it explore the roasters' motivation to invest in a direct trade relationship with producers. I am concluding that applying the global value chain approach to direct trade will contribute to the understanding of governance in global value chains.

Global value chain thinking

Global value chain thinking is born out of the realization that today's global economy is characterized by two main trends: The globalization of production and trade and the vertical disintegration of multinational corporations (Gereffi, Humphrey, and Sturgeon 2005). During the last decades many developing countries have entered the global economy. Some have even developed their industrial capabilities into becoming the world's manufacturing hub (China) or back office (India). At the same time, large corporations have redefined their strategies to focus all efforts on their core-competences. They are concentrating on high value-adding such a marketing or product design and reduce ownership in other activities such as generic services and volume production.

The trend emerged in the 1960s in the manufacturing industry. Today, value chains in most industries - from manufacturing to food production and services - span across a large number of countries and involve multiple independent companies. As a result of these changes in the global economy landscape new forms of coordination between companies have emerged. Global value chain theory aims to explain these new structures and governance of global production (Gereffi 1999, 2014). For that purpose, global production, trade and consumption are seen as *"networks of complex and dynamic inter-firm and intra-firm relationships"* (Gereffi 2014). The analytical tool is the disaggregation of global structures of production into networks of activities that are controlled by one or several firms. The most prominent concept in GVC thinking is that of a *"lead firm"* that has the ability to *"drive the chain"* (Gibbon, Bair, and Ponte 2008).

Global value chain thinking is also known as *"global commodity chain analysis"*, because Gary Gereffi originally developed the approach within a political economy of development perspective to study the production structure of commodities in manufacturing and service industries. However, the approach is today widely used in case studies by researchers of various professions and applied to various industries (Gibbon, Bair, and Ponte 2008; Ponte 2002). By breaking up global value chains into sets of activities, GVC thinking helps researchers and practitioners to understand how and where value is added along the chain.

Towards a holistic analysis of value creation in global chains

When Gereffi initially introduced global value chain thinking, he identified four dimensions of analysis: the input-output structure, the geographical coverage, the institutional framework and the governance structure (Ponte 2002). With further theoretical and empirical research, the institutional framework and governance structure have emerged as the more analytical and important concepts of the approach (ibid.).

Many scholars and practitioners that work with GVC thinking have a strong focus on economic development (Gereffi 2014). They are interested in the effects that global value chain integration has on suppliers in developing countries. When developing country firms are moving from low-value to high-value activities in the chain, this is also referred to as *"climbing the value chain"* or *"upgrading"* (Gereffi 2014). The academic challenge is to identify the conditions under which this is likely to occur. In order to answer this question, scholars are using institutional frameworks to identify power structures and dynamics in the chain. The specific constraints to upgrading and dynamics of chain upgrading have been treated in more detail elsewhere (see for example Humphrey & Schmitz, 2001, 2002). As this study adopts a top-down view on GVC structures, I will focus on the recent developments in the most popular analytical dimension of GVC thinking: Lead-firm governance.

Top down governance and lead firms

Gereffi argues that the GVC approach provides a *"holistic view of global industries from two contrasting vantage points: top down and bottom up"* (Gereffi 2014). The bottom-up view explores how suppliers can improve their position in the institutional structure of the chain as discussed in the previous chapter, while the top-down perspective analyzes the governance structure of the chain.

Not every supply chain is necessarily driven by a lead firm. Many goods are traded in spot transactions based on arm's lengths relationships between two firms. Here, the market coordinates the exchange conditions. However, when one firm is exercising significant influence on the actions of other actors in the chain the question of "*governance"* arises. In the GVC literature, governance is broadly defined as a situation where "some firms in the chain work according to parameters and standards set by another firm" (Humphrey and Schmitz 2001). Humphrey & Schmitz identify four key parameters that have to be decided in the production process:

- What is to be produced;
- How it is to be produced;
- When it is to be produced, and
- How much is going to be produced (Humphrey and Schmitz 2001).

The firm that is setting those parameters is seen to hold the lead role in the chain. Theoretically, any actor in the chain can be in the role of the leading firm. This thought is represented in the distinction between *"producer-driven"* and *"buyer-driven"* chains proposed by Gereffi in the early days of GVC thinking.

On the one hand, Gereffi observed that in capital-intensive sectors, manufacturing firms with high technological and capital resources sub-contracted only a limited number of labor-intensive activities to suppliers. These suppliers were organized in a vertical hierarchy and managed by the leading manufacturer. Gereffi called this form of governance *"producer-driven"* (Gereffi 1999). In labor-intensive sectors, on the other hand, retailers took on the role of lead firms in the chain. Gereffi observed that branded retailers in the clothing industry concentrated on product development, design, branding and marketing and outsourced all manufacturing activities to independent manufacturers overseas. In these *"buyer-driven"* chains, retailers were able to dictate the conditions in the chain without equity involvement. The concept of the buyer-driven chain is popular among scholars, because it was able to capture a newly emerging form of global production (Gibbon, Bair, and Ponte 2008).

As a reaction to the popularity of the concept, buyer-driven chains have been investigated in numerous empirical studies with the aim to find out how and to which extend buyers are able to dictate the conditions of production to independent suppliers in the chain. Research showed that the original distinction of producer-driven and buyer-driven chains was not able to capture the full complexity of global production (Gereffi, Humphrey, and Sturgeon 2005). Three main arguments were developed on the basis of the empirical findings calling for further development of governance theory. Firstly, due to changes in the global regulatory environment in the 1990s - e.g. the discontinuation of trade agreements - buyer-driven governance structures seemed to emerge in almost all industries (Gibbon, Bair, and Ponte 2008). Secondly, research showed that a single GVC is in reality composed of different links that can show various kinds and levels of *"driverness"* for different product parts or markets. Thirdly, external actors like NGO's and certifying institutions influence value chain governance in a way that was not accounted for in Gereffi's original distinction (Gereffi, Humphrey, and Sturgeon 2005). Nevertheless, Gereffi's distinction between buyer and producer driven chains remains a valuable point of departure for understanding the dynamics of control in global value chains (Gibbon and Ponte 2005).

The coffee value chain as an example for a buyer-driven chain

The concept is for example applied to coffee chains to understand the power structures and corporate strategies in the chain (see for example Daviron & Ponte, 2005; Ponte & Gibbon, 2005; Ponte, 2002; Thurston, 2013). Scholars agree that mainstream coffee trade is an example for a buyer-driven chain, meaning that importers and roasters are the actors in the chain that decide the conditions of production and trade.

The approach has also been used to investigate how deregulation and changing consumption patterns have affected coffee producers in developing countries: A study prepared by the International Coffee Organization (ICO) suggests that the share of gross added value by roasters in importing countries was higher during the free market period (1990-2009) than during the regulated market period (1975-1989). In 2011 the ICO estimated that the percentage gross added value of the retail price retained by roasters - which equals the overall revenue obtained by the roasting industry - varied between 60% and 85% (International Coffee Organization 2011).

Daviron & Ponte further explore the value distribution along the coffee chain and argue that even when coffee is marketed to consumers as a highly differentiated product, i.e. Italian espresso, the generated value is not passed on to farmers (ibid. 2005). This confirms the assumption that the roasters are the actors calling the shots in the coffee business.

Summing up, when coffee is traded as a commodity, roasters are performing the activities in the value chain that accumulate the most value. These activities are roasting, packaging, marketing and retail.

Academic perspectives on direct trade

Direct trade is mostly studied in line with sustainability and ethical trade initiatives as alternatives to commodity chains. As direct trade was developed in the coffee industry, coffee remains the prime subject of research. Recent direct trade initiatives in the chocolate business have not yet been explored by academia.

General research on ethical trade, CSR initiatives and certifications is spread more broadly across industries, with many case studies in food and garment trade. Case studies mainly focus on two dimensions: (1) The impact that alternative trade models have on the livelihoods of producers in the Global South (see for example Bacon, 2005; Thurston, Morris, & Steiman, 2013); and (2) consumers' awareness of the conditions in producing countries and the impact of certifications on their purchasing decisions (see for example Devinney, Auger, & Eckhardt, 2010; Loureiro & Lotade, 2005; Thurston et al., 2013).

According to Thurston research on whether farmers' income and living conditions are actually improved by selling certified coffee is not consistent (ibid., 2013a). On the one hand, there is empirical evidence from Nicaraguan farmers suggesting that access to certified markets does indeed lead to higher farm gate prices and improved living conditions (Bacon, 2005). On the other hand, the Fair Trade certification is criticized for neglecting environmental aspects and for benefitting only a small and selected number of producers (Moore, Gibbon, and Slack 2006)

Studies on consumer perception of sustainability initiatives and certifications in coffee are often connecting alternative trade models to the question of a business case for CSR. Again, the findings are mixed. While some authors argue that the ethical consumer is a myth (Devinney, Auger, and Eckhardt 2010; De Pelsmacker, Driesen, and Rayp 2005), others find that consumers are perceptive for ethical trade and environmental labels and are indeed willing to pay premium prices for certified products (Loureiro and Lotade 2005).

In general, findings from studies on alternative trade models are a valuable starting point for understanding direct trade. However, one should be careful when applying findings from i.e. studies on Fair Trade to direct trade. Studies that discuss direct trade as just another CSR initiative neglect two points: (1) Direct trade is not (yet) a globally accepted certification or label, and (2) the prime motivation for roasters to trade directly is not ethics - it is the quality of the coffee.

Connecting certifications and ethical trade to chain governance has not been a focal point in the research. An exception is a study by Gibbon & Ponte that combines GVC thinking with convention theory in order to explain how global value chains can at the same time be buyer-driven and governed by a "*hands-off*" approach from lead firms. Ponte & Gibbon draw on convention theory to argue that lead firms in the coffee and clothing industry have been able to embed complex information about quality in widely accepted standards, labels, certification and codification procedures. Hence, they are able to manage complex quality information without moving to hands-on governance, i.e. vertical integration.

Contrary to the chains that were studied by Ponte & Gibbon, direct trade is characterized by a *"hands-on"* approach to coordination in the chain. Although some roasters use certifications to diversify their product offering, they do not rely on them for assuring quality (Interview Peter Dupont 21.01 2015; Interview Soren Sylvest 26.03 2015). Hence, the governance structure observed in direct trade chains cannot be explained with the use of quality standards as governance elements.

To sum up, the to-date existing studies on chain governance are not sufficient to understand the governance structure of a direct trade relationship between roasters and suppliers. Luckily, global value chain thinking provides the necessary analytical tools to do so. While the approach has been applied to conventional coffee commodity chains, is has not been employed to understand direct trade. As GVC thinking is a proven approach to understanding governance in inter-firm relationships, applying it to direct trade will give valuable insights on the governance structure in roaster-supplier relationships, which also provides the basis for exploring the roaster's motivation to trade directly.

2.4 GOVERNANCE IN THE DIRECT TRADE CHAIN

In order to grasp the characteristics of the trade relation that is developed between roasters and farmers when they trade directly, I will draw on a framework that was born out of global value chain thinking but also incorporates aspects of transaction cost economics, the resource-based view and network theory. After presenting the framework, I will assess its strength and weaknesses in regards to understanding direct trade relationships. I will argue that the Gereffi et al. framework is appropriate to describe the governance in the direct trade chain. The direct trade chain consists of only one link. Hence, the very nature of the chain is refuting a major weakness of the framework.

GVC thinking 2.0: Theory of global value chain governance

In 2005, Gereffi, Humphrey and Sturgeon further developed Gereffi's original distinction between buyer-driven and producer-driven chains to create a framework of global value chain governance. With their analytical work Gereffi et al. are addressing two fundamental questions in GVC thinking: Why is production fragmented across borders and between firms? And, how are activities coordinated in firm-to-firm relationships? Gereffi et al. draw on organizational economics to build their framework of global value chain governance. The framework is building on a general understanding of why companies enter complex firm-to-firm relationships based on transaction cost economics, the resource based view and network theory (ibid., 2005).

Transaction cost economics relies on the concept of asset specificity to explain why firms internalize market transactions (Gereffi, Humphrey, and Sturgeon 2005): Firms can easily outsource standardized products or services because they can be described and valued with little coordination cost. Moreover, standardized products can be produced by many different suppliers and bought by a variety of customers, minimizing searching and information cost in the relationship. Thus, relationships that are built between firms trading standard products are likely to be arm's-length relations based on price. The more customized a product or service, the more likely it is that outsourcing this activity will require transaction-specific investments. Coordination problems arise because non-standardized products are difficult to describe and value. Consequently, opportunistic behavior is now possible creating monitoring and enforcement cost. Thus, complex contracts need to be in place to govern the relationship. Transaction cost economics theory argues that, as a result, firms will outsource activities when transaction costs are low and bring activities in-house when costs are high (Gereffi, Humphrey, and Sturgeon 2005).

While laying the groundwork for understanding why firms outsource some activities and internalize others, transaction cost economics alone does not paint a full picture of the complexity of firm-to-firm relationships. Even though they are facing asset specificity, coordination cost and opportunistic behavior, firms often decide against vertical integration (Gereffi, Humphrey, and Sturgeon 2005).

Advocates of the resource-based view argue that the explanation for this behavior is to be found in the composition of competencies necessary to fulfill the different activities in the value chain (see for example Barney, 2001). The resource-based view is built on the underlying assumption that a firm creates value through the application of a specific bundle of resources that it has developed. It is argued that one firm can never master all the resources and capabilities required to produce a specific product or service from scratch. Thus, firms have to rely on inputs from outside for those activities in the chain that are difficult, time-consuming or simply impossible to learn. Consequently, firms are motivated to invest in managing complex inter-firm relationships to access resources complementary to their own set of competences. Thus, firms often engage in production systems that are more complex than would be predicted by transaction cost economics. In order to manage the coordination cost and opportunism that come hand in hand with outsourcing complex activities, firms rely on trust, mutual dependence and reputation. The effects of repeated transactions, reputation and social norms in firm-to-firm relationships are further explored by network theorists introducing networks as a form of governance (see for example Jarillo, 1988).

Combined, transaction cost economics, the resource-based view and network theory provide three archetypes for organizing fragmented production: *"Market"*, *"networks"* and *"hierarchy"*. Gereffi et al. amplify this view by integrating the concept of a lead firm driving the chain. They draw on empirical evidence from global value chain research to argue that not all networks are the same. Rather, network relationships are characterized by varying degrees of explicit control and power asymmetry originating from a lead firm.

In order to identify the degree of explicit control and power asymmetry in inter-firm relationships, Gereffi et al. introduce three key variables: *"Complexity of transactions"*, *"ability to codify transactions"*, and *"supplier capabilities"*. By assigning the value high or low to each variable, Gereffi et al. arrive at eight possible combinations, of which five describe plausible types of governance in global value chains (ibid., 2005).

Table 1: Key variables of global value chain governance

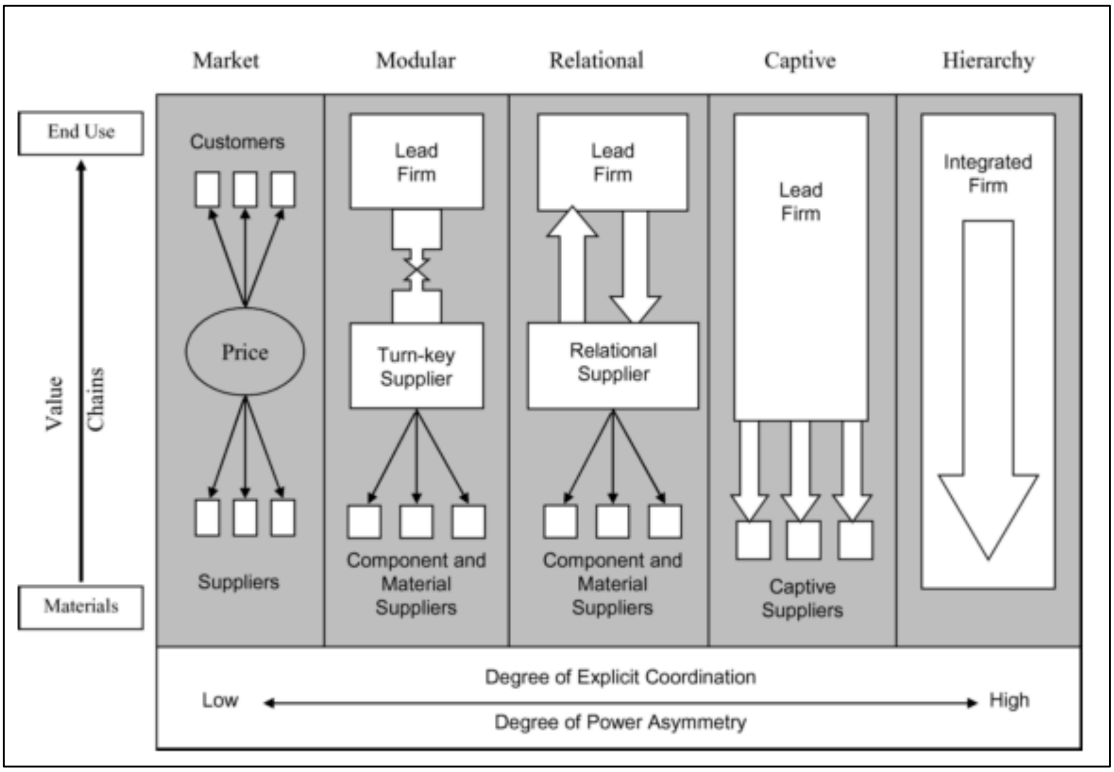
<table>
<tr><th>Complexity of transactions</th><th>Ability to codify transactions</th><th>Supplier capabilities</th><th>Governance type</th></tr>
<tr><td>Low</td><td>High</td><td>High</td><td>Market</td></tr>
<tr><td>High</td><td>High</td><td>High</td><td>Modular</td></tr>
<tr><td>High</td><td>Low</td><td>High</td><td>Relational</td></tr>
<tr><td>High</td><td>High</td><td>Low</td><td>Captive</td></tr>
<tr><td>High</td><td>Low</td><td>Low</td><td>Hierarchy</td></tr>
<tr><td>Low</td><td>Low</td><td>Low</td><td rowspan="2">If a transaction is not complex, it should be ease to codify. Thus, this combination is unlikely to occur in reality.</td></tr>
<tr><td>Low</td><td>Low</td><td>High</td></tr>
<tr><td>Low</td><td>High</td><td>Low</td><td>In this scenario the supplier would be excluded from the chain. Thus, through realistic, the combination does not describe a chain governance type.</td></tr>
</table>

Table based on Gereffi et al. (2005).

Based on the three key variables identified, the authors map the different types of governance according to the degree of explicit coordination and power asymmetry in the chain. Two extreme types are identified on each side of the spectrum: *"Market"* and *"Hierarchy"*. A global value chain with a *"market"* governance structure is characterized by a low degree of coordination and power asymmetry. Suppliers and buyers meet in marked-based relationships and the cost for switching partners is low. The flip side is a chain governed by *"hierarchy"*. This governance type basically describes a vertically integrated chain with a high degree of coordination and power asymmetry.

In between those two extremes, Gereffi et al. define three types of governance in the form of networks: *"Modular value chains"*, *"relational value chains"* and *"captive value chains"*. These chains are characterized by a lead firm that exercises various degrees of power over the other firms in the chain without direct ownership.

Figure 3: Five global value chain governance types



Gereffi et al. (2005).

A *"modular"* chain is characterized by highly complex information flows that are, however, easy to codify. Suppliers are specialized and highly capable and thus able to present lead firms with turn-key solutions to their problems. They often rely on input from a number of component and material suppliers. When high information complexity and capable suppliers are met by a low ability to codify information the governance type is described to be *"relational"*. Relational chains often involve strong inter-firm links and dependencies, for example in the form of close social ties. A chain governed by *"captive"* forms of coordination is characterized by high informational complexity and ease of codification but low suppliers capabilities. This enables the lead firm to closely monitoring the supplier. Suppliers in a captive chain are dependent on the lead firm, which is often shown in high switching cost for the supplier.

Ponte & Gibbon criticize the Gereffi et al. model for neglecting the fact that market, modular and relational forms of coordination may exist at different links in one value chain (ibid. 2005). In complex value chains with multiple-tier suppliers this is a valid point. It does not, however, impair the value of the model for understanding governance in direct trade chains, because there is only one link in the chain. Thus, in this special case, the mode of co-ordination identified in the link between roasters and producers does describe the overall mode of governance in the chain.

Exploring governance in direct trade relationships contributes to GVC theory, because it adds to the understanding of the conditions that contribute to the emergence of certain forms of governance in the chain. According to Gereffi this area of GVC thinking would benefit from further research (Gereffi 2014). Moreover, further debate and research is needed to formulate a coherent theoretical framework for understanding governance and power dynamics in global value chains. In depth research of extreme forms of governance - like direct trade - contribute to this debate because it explores the boundaries of the theory.

I use the three variables proposed in the Gereffi et al. model to find out if it is possible to characterize direct trade as one of the five proposed types of governance. And if so, which governance type best describes the governance in the direct trade chain. In order to do this, I assign the value *"high"* or *"low"* to each of the three variables based on the data collected in the interviews with the roasters. In the following, I will present the logic applied to identify if the value of the variables was considered to be high or low. For an overview of the interview questions and their relation to the variables see Tabel 3 in the next chapter.

Variable A: Complexity of transaction

Complexity of transaction is considered to be high if the roasters describe difficulties in identifying premium quality beans and/or difficulties in securing a stable supply in high quality beans. In the literature it is repeatedly stated that the governance structures in the commodity coffee chain do not reward producers for quality. Thus, I am suspecting that roasters do experience challenges in sourcing high quality beans. This might be due to a lack of institutions facilitating the trade of high quality coffee, natural supply volatility or competition between roasters. The complexity of transaction is considered low if roasters state that they have no problems to secure a steady supply of premium quality beans.

Variable B: Ability to codify transaction

The second variable, the ability to codify the transaction, describes the extend to which the roasters' expectations and the information about the produced coffee beans can be codified, for example in a contract. In order to be able to codify information a set of widely accepted standards needs to be in place. Those standards can take the form of quality grading schemes or certifications. The ability to codify the transaction is considered to be high if roasters rely on a certification or label to identify and control bean quality. A sign for this can be that roasters buy coffee *"blind"*, i.e. without tasting a sample of the harvest first. Roasters might also give a guarantee to their producers that they will buy the same amount of coffee for a set price next year. Conversely, if the knowledge that is to be exchanged between buyers and sellers is of tacit nature, contracts or certifications will not be able to capture it. Thus, the ability to codify is considered low if roasters do not rely on contracts, certifications or labels in regards to bean quality and/or if they require a sample of each harvest before buying it. Moreover, if roasters heavily rely on social ties and repeated face-to-face interaction to exchange knowledge with the producers, this is considered to be a sign for a low ability to codify the transactions. High cost associated with switching suppliers or to finding new ones is also a sign for complex information flows.

Variable C: Supplier capabilities

Lastly, the third variable measures if roasters consider the competences of their producers to be high or low. Supplier capabilities are considered high if roasters acknowledge the farmers' expertise in harvesting the coffee. Moreover, roasters should not see an added benefit in owning a coffee farm themselves.Vice versa, supplier capabilities are considered low if roasters actively influence the production processes, i.e. by asking producers to change processes, and /or if roasters consider vertical integration to be able to exercise more control over the production.

3. METHODOLOGY

In this chapter I am presenting the methodological assumptions that form the basis for my research. The table below summarizes the research assumptions that the data collection and data analysis are based on:

Table 2: Research assumptions employed in this study

Ontology	Researcher adapts a subjectivist view on a socially constructed reality
Epistemology	Subjective meaning and social phenomena are considered acceptable knowledge
Axiology	Research is considered to be value-bound. Data interpretation might be influenced by researcher's values
Methodology	Qualitative, small sample

Table inspired by Saunders, Lewis & Thornhill (1997).

3.1 RESEARCH PHILOSOPHY AND RESEARCH APPROACH

In this study I am adapting an interpretive approach to research philosophy. My aim is to understand the direct trade relationship between independent coffee roasters in the Global North and their suppliers in the Global South. I am focusing on the roaster's perspective.

Following social constructionism, I believe that the best way to understand the actions and motivation of the coffee roasters is to see the world through their eyes (Saunders, Lewis, and Thornhill 1997). Furthermore, I consider the direct trade relationship between coffee roasters and farmers as a function of a particular set of circumstances and individuals coming together at a specific point in time. Thus, a positivist research approach cannot capture the complexity of the phenomenon. Hence, this study is representing a subjectivist view on reality.

Different actors in the coffee value chain will perceive situations in varying ways as a consequence of their own view on the world, i.e. farmers and roasters will attach different meanings to the direct trade relationship. The aim of the study is to understand the subjective reality of the roasters. The relationship between the roasters and farmers is seen as something that is created and re-created through a complex set of social interaction (e.g. roasters' visits to the suppliers' farm) and physical factors (e.g. exchange of coffee beans for money). In order to understand the meaning roasters attach to the direct trade relationship with their farmers, I am taking on the view of an empathetic researcher.

Moreover, the study is reflecting my values as a researcher. This is for example visible in the choice of the research design: I will collect my data through personal interviews, as I am placing greater value on personal interaction than on anonymous survey data.

The purpose of this study is mainly explanatory. However, before the effect of the variables on the relation between coffee roasters and farmers can be explored, it is necessary to fully capture the selected cases (Saunders, Lewis, and Thornhill 1997). Thus, there is a descriptive element to the study.

3.2 RESEARCH STRATEGY AND DESIGN

The aim of the study is to understand the specific characteristics of the relationship between coffee roasters and farmers in direct trade chains and to characterize the type of governance that is the outcome of this interaction. Thus, gaining an understanding of the meaning that both farmers and roasters attach to the relationship is important. Furthermore, the context in which roasters and farmers are exchanging information and trading goods needs to be well understood by the researcher.

Research strategy

The research objective calls for an inductive research approach where theory follows data. The inductive research approach acknowledges that humans make sense of the world around them in different ways (Saunders, Lewis, and Thornhill 1997). In addition, research through induction allows for a more flexible research structure that permits to find alternative explanations to make sense of the data collected. The direct trade relationship between coffee roasters and their suppliers is a complex real-life phenomenon with many variables and points of interest. Thus, it is too complex to be captured by survey or experimental research strategies alone (Yin 2009).

In order to be able to embrace the importance of context for the roaster-supplier relationship in direct trade, I am using a multiple case study method. Case study research design allows to explore the phenomenon of the direct trade supply chain in its real-life context (Yin 2009). Moreover, I am collecting data from multiple cases in order to establish whether the findings are repeated over the case range.

Research design

As a first step, I collect secondary data and documentation from the roasters, e.g. the website of the coffee shops and blog entries of visits to their suppliers. This more exploratory step helps me to define the key issues that are worth exploring in depth in an interview setting.

In a second step, primary data is collected through semi-structured, in-depth interviews with managers of three direct trade roasters in Copenhagen. Data from direct observation - e.g. information printed on packaged coffee - is used to triangulate the data collected in the interviews. The interviews are designed to address the key issues that have been identified in the exploratory research stage. The primary data collected in the interviews and through observation is then used for the explanatory part of the research. I chose to use multiple methods in this study in order to be able to evaluate whether the right issues have been addressed and whether the research findings can be trusted (Yin 2009).

Research technique

The cases in this study are selected on the basis of a literal replication logic (Yin 2009). The cases were selected because direct trade is integral to all three companies. Moreover, the three cases are representative for the total population. Taken together they account for 70% of the market for directly traded coffee in Denmark with a trade volume of 300tons of coffee annually. The research focuses on exploring how and why this trade structure occurred by searching for replicated conditions from case to case.

The study draws on evidence from interviews with representatives from the three selected roasters in Copenhagen and non-structured direct observation before, after and during the interviews. Other documentation, for example in the form of marketing material, blog entries and the roasters' websites, supports the interview data.

The interviews are semi-structured, allowing for new issues to emerge during the interview process. In order to obtain the most accurate evidence on the roasters' subjective reality, the interview questions are chosen with care and consideration for human psychology. For example, asking *"why"* questions often creates a defensive reaction from the interviewee (Yin 2009). Thus, the majority of questions are formulated as *"how"* questions. The interview questions were designed to collect data on the three variables identified in the Gereffi et al. model: (A) Complexity of transactions, (B) ability to codify transactions and (C) supplier capabilities. In addition to questions that are directly related to those three variables, a number of open question were asked to explore other factors that define the governance in the chain but are not considered by the three variables in the Gereffi et al. model. Thus, the objective of the interviews is twofold: The first set of questions is designed to explore the buyer-supplier relationship using the three variables. The second type of questions intends to identify and understand possible rival explanations to the development of a direct trade relation between coffee roasters and buyers.

The unit of analysis is the nature of the relationship between coffee roasters and farmers. The context is defined by the roasters' and farmers' day-to-day business reality, the formal and informal institutions that regulate the trade of specialty coffee, and the coffee consumption patterns of Danish consumers.

Furthermore, the cases are defined by time and place specific boundaries. The three roasters are all based in Copenhagen and buy coffee from coffee farmers in the Global South. Moreover, the selected case companies have been working with direct trade for a minimum of five years at the time of the interview. In the selection of the interview partners, I was looking for company representatives that had been involved in the starting phase of the business and knew about the company's mission. Furthermore, the interview partners are all actively involved in the sourcing of the coffee beans and in managing the relation to the producers.

Data analysis

The transcribed interviews were analyzed using qualitative content analysis. I inductively develop coded categories based on the patterns that emerge from the interview transcripts. The developed categories are then set into relation to one of the three variables from the Gereffi et al. model. In a next step, I use the data to assign the value *"high"* or *" "low"* to each of the variables. The applied logic is shown in Table 3 below:

Table 3: Relation between interview questions and variables

Variable	Interview questions	Logic used to assign the value "high"/ "low"
(A) Complexity of transactions	• How do you source your coffee? • What is your the motivation so source directly? • How many suppliers do you have? • What is the role of the exporter? • How do you find and select suppliers? • Are there language or cultural barriers between roasters and farmers?	Complexity of transactions is considered to be high if • Roasters experience difficulties in identifying premium quality beans and/or • Roasters experience difficulties in securing a stable supply in high quality beans, i.e. due to institutional voids, supply volatility or competition Complexity of transactions of considered low if • Roasters have no problems to secure a steady supply of premium quality beans
(B) Ability to codify transactions	• Do you use certifications, i.e. Organic? Why do you use them (or why not)? • What is most important to you? Environmental dimension/ social dimension/ bean quality? • What defines a good quality bean? • What is the main purpose of visiting farms once a year (Select coffees/ tastings/ teach processes/ control	Ability to codify is considered high if • Roasters rely on a certification or label to identify and control bean quality and/or • Roasters buy coffee "blind", i.e. without tasting a sample of the harvest first Ability to codify is considered low if • Roasters do not use certifications or labels in regards to bean quality • Roasters taste each coffee before buying it and

	standards/ relationship building with the people...)? • Do you guarantee to buy a certain volume or to pay a certain price? • Do you buy from the same farmers each year?	give no or limited price/volume promises • Roasters rely on a personal relationship to control quality and production processes
(C) Supplier capabilities	• Do you see suppliers as partners/ students/ friends...? • What is your expertise? What is your suppliers' expertise (Division of tasks/ responsibilities)? • Would there be a benefit in owning a coffee farm/ production? • Is there a difference in the way you work with different suppliers (Brazilian large scale estates vs. Columbian coops)? • Do you give advice to suppliers?	Supplier capabilities are considered high if • Roasters acknowledge the farmers' expertise and/or • Roasters do not see a benefit in owning a coffee farm rather than buying from a supplier Supplier capabilities are considered low if • Roasters actively influence the production processes, i.e. ask producer to change processes or coffee varieties and/or • Roasters own a farm or would consider it as a benefit to do so
Open questions	• How do you define direct trade? • Are micro roasters in Copenhagen connected? How? Do you exchange knowledge? • Do you connect your suppliers with each other or other roasters? • Do you support suppliers, i.e. help them to get a credit? • Do you notice that suppliers change/improve over time? • Is there pressure from consumers or competitors to source directly from farmers? • Is the ethical trade or the quality the differentiating factor of your product? • Did you ever terminate a relationship? Why? • How do you see the future of micro roasters? • Will the market share of directly sourced coffee grow? • How is the trade with farmers changing? Is it getting easier to find high quality and sustainably produced coffee? • Are estates gaining more power in the relationship? • Is climate change a challenge? Will it become more difficult to find good quality coffee? • Do Danish prefer a special taste of coffee? Do you cater to local tastes? • How do you gain new customers? • Are you educating consumers about quality coffee and the way you source?	

3.3 ISSUES OF RELIABILITY AND VALIDITY

With the use of a case study research design, the study is likely to be affected by threats to construct validity (Yin 2009). Construct validity is concerned with the identification and use of the correct operational set of measures to study the phenomenon at hand. In order to test the construct validity of the research the study is relying on multiple sources of evidence. This allows me to develop converging lines of inquiry through triangulation. Hence, the findings are likely to be more precise as they are based on more than one source of information (Yin 2009).

Moreover, case study research is often prone to threats to internal validity. The internal validity of a research study is threatened every time the researcher establishes a causal relationship between two factors without being certain that the outcome is not caused by a third and unknown factor. In addition to this general limitation, case studies are affected by another threat that is specific to this research design: The problem of making inferences. An inference is made every time an event cannot be observed directly. For example, in this study I am deriving information about the direct trade relationship with suppliers from the interviews with the roasters. Thus, I am making inferences about events in the past that might be flawed (Yin 2009). In order to minimize threats to internal validity I am addressing rival explanations to the findings and use logic models to minimize the chance that the direct trade relationship is explained by other factors than those captured in the study.

Another weak spot of case study research is the question of external validity and generalizability. Critics of case study research design often criticize that the possibilities to generalize the findings derived from a case study beyond the immediate study are limited. However, Yin argues that case studies findings can indeed be generalized - with the difference that case study research relies on analytical generalization and not on statistical generalization (Yin 2009). This study is using a multiple-case approach in order to find out whether patterns are replicated across the cases. The observed replication logic is then considered to be the analytical basis for the generalization of the study's findings.

Finally, any research study should be conducted with the objective to minimize bias and errors. This can be done by testing the reliability of the research design: If the same study was to be conducted again, all findings and conclusion should be the same (Yin 2009). The reliability of this study is increased by documenting the steps taken in the research process as detailed as possible. However, one also has to bear in mind that the researcher is part of the research process.

4. ANALYSIS

The following analysis is made up of two parts. First, the three case companies KONTRA Coffee, The Coffee Collective and Estate Coffee are presented. The focus is on the case company's business model and the supplier portfolio. In the second part of the analysis, I am presenting the findings from the interviews in regards to the three variables (A) complexity of transactions, (B) ability to codify transactions and (C) supplier capabilities. The analysis chapter concludes with a discussion of findings that are not captured by those three variables.

4.1 CASE COMPANY PROFILES

I conducted in-depth interviews with representatives from three independent roasters in Copenhagen, who are sourcing beans directly from farmers. The three case companies and interview partners are presented below. For an overview see Table 4:

Table 4: Overview case companies

	KONTRA Coffee A/S	The Coffee Collective	Estate coffee
Interviewee	Kurt Daalsgard, co-founder and managing director	Peter N. Dupont, co-founder, managing director and green bean buyer	Søren Sylvest, co-founder and managing director
Founding year	2004	2007	1996
Ownership	Kurt Daalsgard, Troels Poulsen, Søren Hansen, BKI Foods	Peter N. Dupont, Klaus Thomsen, Casper E. Rasmussen, Linus Törsäter	Chokolade Compagniet A/S
Mission	*"Kvalitet i koppen"* (quality in the cup)	*"(...) explore and unfold exceptional coffee experiences in a manner that gives better living conditions to coffee farmers across the globe"*	"*God kaffee begynder med god etik"* (Good coffee begins with good ethics)
Business model (Share of total revenue)	90% B2B, 10% B2C	25% B2B, 75% B2C	50% B2B, 50% B2C
Roasting volume	200 tons/ year (120 tons traded directly)	45 tons/year	70 tons/year
Percentage of roasting volume that is direct trade coffee	60%	95%	95%

Case company 1: KONTRA Coffee

KONTRA Coffee A/S is a roaster and shop in Copenhagen. The roasting facility is located in Hvidovre, the shop in the Copenhagen neighborhood Østerbro. KONTRA develops coffee solutions for cafés and restaurants and offices, where the company installs, maintains and stocks coffee machines. What sets KONTRA apart from the other two case companies is the company's focus on business customers: Selling coffee B2B makes up 90% of the company's revenue (Interview Kurt Dalsgaard 16.01 2015). The company also consults café owners on their brewing technique and has developed signature blends for some.

In its shop KONTRA Coffee sells selected beans and coffee machines, chocolate and tea. KONTRA also organizes courses in latté art and barista technique and KONTRA coffee baristas take part in the World Barista Championship and in international tastings and trade fairs.

KONTRA was founded in 2004 and is today collectively owned by Kurt Daalsgard, Troels Poulsen, Søren Hansen and BKI Foods. Kurt Daalsgard, who co-founded the company and is today the managing director, was interviewed for this study. He is active in the speciality coffee scene in Copenhagen and focuses on developing coffee solutions for cafés and companies with KONTRA Coffee. Co-owner Troels Poulsen won the World Barista Championship in 2005 and works mainly with barista training, sales and customer service at KONTRA. Investor Søren Hansen owns Bentax ApS, a company that is specialized in coffee machine solutions for cafés and restaurants (Kontra Coffee A/S 2015). BKI Foods, Denmark's largest coffee producing company, became an investor in 2011 (Interview Kurt Dalsgaard 16.01 2015).

KONTRA's mission is *"Kvalitet i koppen"* - quality in the cup. On its website the company states it considers the quality of the raw product to be key to good coffee (Kontra Coffee A/S 2015). KONTRA currently sells six Espresso blends and ten single origin coffees B2C. There are also limited edition coffee blends for specific occasions, e.g. Christmas blend. In order to allow the customer to track the coffee back to its origin, KONTRA prints information about the producer on the single origins. Moreover, KONTRA shares pictures from their visits to the suppliers on social media, for example of coffee plants, beans and the farmers.

KONTRA trades coffee and works with its producers in various ways, some being more direct than others (Interview Kurt Dalsgaard 16.01 2015). When the company started trading coffee in 2004, it sourced coffee beans from European wholesale traders. Dalsgaard points out that coffee quality was driving the business model from the start:

> "When we started the most important thing for us was to get the best coffee. And [...] we believed that there were some people that were better at this than us. [...] Back ten years ago there were some really good green bean wholesale traders in Europe and we started working with them" (Interview Kurt Dalsgaard 16.01 2015).

In 2011 - with the large Danish roaster BKI foods as a new partner - KONTRA started to enter in direct contact with suppliers with its first single origin from Colombia. Due to the gradual emergence of more direct trade relations within KONTRA, the company is today trading in many different ways (Interview Kurt Dalsgaard 16.01 2015).

KONTRA regularly works with suppliers in Colombia, Brazil, Nicaragua, Guatemala, Ethiopia, Kenya and Rwanda. In Colombia, KONTRA sources from the family-owned estate Granja La Esperanza, the middle-size farm Hacienda San Alberto and Hacienda Horizontes. Hacienda San Alberto and Hacienda Horizontes also roast coffee and operate farm cafés for tourists. In Brazil, KONTRA sources from the family-owned farm Fazenda Capim Branco of a size of 230 hectares and from the coffee farm Daterra Coffee (Kontra Coffee A/S 2015).

Daterra is KONTRA's largest producer with plantations of more than 3.200 hectares and a production volume of 4.200 tons of high quality coffee annually. The farm is owned by Luis Noberto Pascoal, who is also the CEO of Dpaschoal, Brazil's largest automotive tire retailer. Pascoal bought the Daterra farm in the 1990s with the goal to produce the best Brazilian coffee with the support of high technology. The Daterra farm does not only stand out among KONTRA's suppliers because of its size, but in the way the coffee production is automated. The company uses machines to harvest the coffee and to turn beans on the drying beds, for example. Daterra performs all production steps on the farm: From growing it's own coffee seeds to sorting and vacuum packaging the coffee. This is remarkable, because producers traditionally give the coffee away after the harvest to a mill or an exporter, who then cleans, sorts and packages the beans. Daterra also has its own *"farm lab*" where the company's cuppers blend Daterra's signature blends from the different Arabica varieties that are grown on the farm (Daterra Ltda. 2015b).

KONTRA's supplier in Nicaragua is the farm La Esperanza, which is owned by Salatiel de Jesús Zavala Ferrufino, who won first place in the Cup of Excellence in 2009. The supplier in Ethiopia is a privately owned wet mill. The Dumerso mill buys coffee cherries from several smallholder farmers for processing and export though the Ethiopian exporter BNT. The supplier in Kenya, Kofinaf Co Ltd., is a company with six estates of a combined area of 1750 hectares and a coffee mill. Kofinaf is also marketing and exporting the coffee (African Fine Coffees Association 2015). In Rwanda KONTRA is working with the co-operative Dukunde Kawa Musasa. The co-operative has around 2000 members with each of the smallholder harvesting up to 200 coffee trees.

Table 5: Overview direct trade suppliers KONTRA

	Country	Type	Ownership structure	Size and production volume	Other activities
Granja La Esperanza	Colombia	Estate	Family owned	N/A	
Hacienda San Alberto	Colombia	Farm	Family owned	N/A	Roasting, café
Hacienda Horizontes	Colombia	Farm	Family owned	N/A	Roasting, café, tourist lodge
Fazenda Capim Branco	Brazil	Farm	Family owned	230 hectares	
Daterra Coffee	Brazil	Estate	Luis Noberto Pascoal	3.200 hectares; 4.200 tons/ year	Cupping, packaging, marketing, export
La Esperanza	Nicaragua	Farm	Family owned	N/A	
Dumerso	Ethiopia	Wet mill	Privately owned	Cherries from several smallholders	
Kofinaf Co Ltd	Kenya	Business	Public company	Six estates, 1750 hectares	Marketing, export
Dukunde Kawa Musasa	Rwanda	Co-operative	2000 smallholders	Up to 200 trees/ family	

Managing director and co-founder Kurt Dalsgaard understands a direct trade relation as one where KONTRA knows the farmer personally (Interview Kurt Dalsgaard 16.01 2015). KONTRA employees visit producers on their farms with the purpose to meet the farming family, and to see the coffee fields and production process. However, the company does not communicate to the consumer how frequent they visit each farm. Daalsgard also points out that although he would call the relation direct trade, there are still two to three middleman in between the farmer and KONTRA that ensure that the trade works smoothly. To facilitate the trade KONTRA usually involves an exporter, an insurance company and a transport company (Interview Kurt Dalsgaard 16.01 2015). Dalsgaars emphasizes the importance of middleman to KONTRA as the company is sourcing larger volumes than many other speciality roasters do.

KONTRA also works on sourcing projects that involve multiple stakeholders. For example, KONTRA is involved in the non-profit project Orang Utan Coffee. The project is a cooperation with the German roaster Speicherstadt Kaffeerösterei, farmers in Sumatra and the Sumatran Orangutan Conservation Program. The idea behind the project is to encourage Sumatran coffee farmers to focus on quality rather than quantity. Farmers are paid a premium to produce a limited amount of high quality, organic coffee, rather than expanding their farms into the Sumatran rainforest. Roasters pay a set price for the coffee and profits are re-invested in the Sumatran Orangutan Conservation Program (Orang Utan Coffee 2015). KONTRA developed this project with and for the Bella Center Goup, a Danish hospitality business with conference centers, hotels and restaurants and one of KONTRA's largest clients. The coffee is branded as Orang Utan Coffee and Bella Center uses the project in its marketing strategy (Interview Kurt Dalsgaard 16.01 2015).

More recently, KONTRA also started sourcing small volumes of coffee in the form of micro lots. Dalsgaard describes micro lots as "*a new way of working more direct [...] with some very small farmers who are only producing very small amounts of coffee*" (Interview Kurt Dalsgaard 16.01 2015). Micro lot farmers are usually organized in co-operatives that presents the different micro-lot varieties to coffee buyers. According to Dalsgaard, the quality of micro lots has improved over the last five to six years. Today, KONTRA uses micro lots to identify interesting coffees and to secure high quality coffees, as Dalsgaard puts it: *"This kind of trade is becoming more interesting when it comes to really, really high quality and well-selected coffees"* (Interview Kurt Dalsgaard 16.01 2015).

90% of the company's revenue come from selling coffee for professional uses and KONTRA is experiencing higher growth in the B2B market compared to B2C. Hence, KONTRA is focusing on meeting the needs of hotels, restaurants and companies. Dalsgaard suggests that B2B customers are interested in buying coffee of improved quality compared to their baseline, but have only little interest in a *"very special micro lot from Colombia"* (Interview Kurt Dalsgaard 16.01 2015).

Case company 2: The Coffee Collective

The Coffee Collective was founded in 2007 by Peter N. Dupont, Klaus Thomsen, Casper E. Rasmussen and Linus Törsäter. Today, Coffee Collective employs about 30 people, who mainly work as baristas in the three cafés in Copenhagen. The Coffee Collective also sells wholesale to other coffee shops, cafés and restaurants and offers coffee brewing trainings. The coffee shop in Godthåbsvej is also the company's roasting facility. Café and roastery are divided by glass only, allowing the customers to smell and see the roasting process.

Coffee Collective sells five single origin coffees and two espresso blends. Coffees are sold in 250g bags of roasted beans. Coffee Collective prints the coffee's origin(s), roasting profile and date, coffee aromas, acidity, and aftertaste on each bag (see Appendix 3).

According to P. Dupont, the idea behind founding The Coffee Collective was to address the *"coffee paradox"* - the contradiction that coffee prices paid to producers in the Global South had not increased since colonial trade structures, but consumers in the Global North were willing to pay premium prices for coffee experiences (Interview Peter Dupont 21.01 2015). Correspondingly, the company's mission is to *"explore and unfold exceptional coffee experiences in a manner that gives better living conditions to coffee farmers across the globe"* (The Coffee Collective A/S 2015).

Among the three case companies, The Coffee Collective is the one that puts most emphasize on educating consumers about direct trade. The company's web side is a case in point with detailed information about the four producers that Coffee Collective is currently sourcing from. Customers can find pictures and information on the farm owner, region, altitude, coffee variety, harvest method, harvest time, processing and trade volume for each of the producers (The Coffee Collective A/S 2015). Moreover, the founders regularly share pictures and stories from farm visits on a blog and on social media. The Coffee Collective has also published a book on coffee production, brewing methods and tasting (see Appendix 4). Additionally, customers are invited to a monthly tour of the roasting facility including an introduction to coffee trade, roasting practices and a tasting. I argue that the company's focus on educating consumers is setting the case apart from the other two case companies. The company makes 75% of its revenue selling B2C. This focus on the end-consumer is also mirrored in the fact that The Coffee Collective is running three cafés in Copenhagen, while KONTRA and Estate Coffee focus on the production of the beans and do not own cafés.

The Coffee Collective was also the first roaster in Copenhagen to use direct trade as an essential part of the company's brand (Interview Kurt Dalsgaard 16.01 2015). The company holds the trademark DirectTrade® for Denmark. The founders were inspired by the U.S. American roaster Intelligentsia and decided to adapt the concept. According to the Danish trademark, direct trade entails that (1) the producer is paid at least 25% above the Fairtrade price and that (2) the roaster visits the producer once a year (The Coffee Collective A/S 2015). Peter N. Dupont, managing director of The Coffee Collective, emphasizes that it is important for the credibility of the trademark that the process can be documented in order to create transparency and avoid misuse of the trademark. Estate Coffee, another buyer and roaster in Copenhagen and the third case company in this study, has also adapted the DirectTrade® trademark and its trade standards.

The Coffee Collective currently sources from four producers: the coffee farm Daterra in Brazil, the co-operative El Desarollo in Colombia, the co-operative Kieni in Kenya, and Hacienda La Esmeralda in Panama.

As for KONTRA Coffee, the Brazilian farm Daterra is the largest producer among The Coffee Collective's producers (see section on Daterra above). Daterra produces more than 10 times as much coffee annually as any of the other producers. The Coffee Collective's most exclusive producer is the family-owned coffee farm Hacienda La Esmeralda in Panama, which grows the rare coffee variety Geisha. The farm's lots have won many prices including the Best of Panama competition, a local equivalent to the Cup of Excellence. The farm is selling the most sought after lots via it's own international online auction. In the last years the owner Price Peterson was able to achieve prices of up to 15 times the market price for his coffee through the online auction (Hacienda La Esmeralda 2015). The farm produces on average 180 tons annually, of which only six tons are auctioned (Hacienda La Esmeralda 2015). The other two producers, El Desarollo and Kieni, are both member organizations that work with a number of farmers. El Desarollo in Colombia is an association of 183 farmers, who each have their own wet mill and between one and seven hectares of land. Together, they grow around 380 tons annually. Kieni is a co-operatively owned wet mill with 320 members. The mill produces around 400 ton annually (The Coffee Collective A/S 2015).

Table 6: Overview suppliers The Coffee Collective

	Country	Type	Ownership structure	Size and production volume	Other activities
Daterra Coffee	Brazil	Estate	Luis Noberto Pascoal	3.200 hectares; 4.200 tons/ year	Cupping, packaging, marketing, export
Hacienda La Esmeralda	Panama	Farm	Price Peterson	180 tons/ year	Online auction, export
El Desarollo	Colombia	Co-operative	183 farmers	380 tons/year	
Kieni	Kenya	Co-operative and wet mill	320 farmers	400 tons/year	

The Coffee Collective trades 95% of it's coffee according to the standards codified in the DirectTrade® trademark. For the company it is important that the direct trade relationship can be documented and easily communicated to the consumers. Thus, the company only prints the DirectTrade® trademark on those coffees for which it can document the two criteria. The yearly visits to the producers are the company's way to document that a personal relationship to the producers is exiting:

> "We wanted to quantify the relationship. That is kind of impossible in a way but we think that if we were not visiting the farmer once in a while that would be a pretty strange relationship we were having. [...] it is a pre-requisite for a personal relationship that you meet the people once in a while" (Interview Peter Dupont 21.01 2015).

Besides documentation the main purpose of visiting the producers is to talk about the quality of the coffee (Interview Peter Dupont 21.01 2015). How the buyers discuss quality during their visits depends very much on the producer they are visiting. Dupont compares visits to the Brazilian coffee farm Daterra with the ones to the Kenyan co-operative Kieni:

> "At Daterra we will talk a lot about the cup quality and about organic certifications. They have a very well developed quality lab, where you can have sample roastings and so on. [...] Producers in Kenya generally do not drink coffee, they drink tea. So we try to get them in with us to do cuppings [...] and talk about the taste" (Interview Peter Dupont 21.01 2015).

Dupont also points out that there are limiting factors to how many suppliers The Coffee Collective wants to have. Firstly, the pool of suppliers that the company can source from is limited because The Coffee Collective wants to offer only coffees with a distinct flavor profile and the highest bean quality. Secondly, the company wants to build volume on the existing producers before taking on new ones. The reason is that The Coffee Collective does not want suppliers to spend a lot of time and resources on the annual visits if the company can only buy a few bags from them. Dupont argues that

> "[...] for extremely small producers it is a waste of their time to come down for a week because they are always very hospitable and use a of their time when you come along" (Interview Peter Dupont 21.01 2015).

In summary, The Coffee Collective stands out from the other two case companies because its brand and business model are designed around the concept of direct trade: Educating consumers about the company's trading philosophy is an essential part of the company's business model.

Case company 3: Estate Coffee

Estate Coffee is owned by Chokolade Compagniet, a Danish wholesale company selling gourmet products in Denmark, Sweden and Norway. Among other products Chokolade Compagniet distributes high quality chocolate under the name AMMA and Valrhona chocolate and owns the tea brand Nute Organic. The Estate Coffee Black Label is the company's coffee brand. The coffee is roasted in the associated roastery Copenhagen Roaster. Chokolade Compagniet was founded in 1996 by Claus Meyer, Mikael Grønlykke and Søren Sylvest, who is today the managing director of the coffee arm of the business.

The company holds ten single origins and four espresso blends in its portfolio. Private customers can buy the coffees online, in the associated outlets Meyers Bageri and Meyers Deli, and in cheese and wine speciality shops around Denmark (Chokolade Compagniet 2015). A number of cafés in Copenhagen brew coffee with beans from Estate coffee, for example Café Øieblikket in the Royal Library. Until recently, the company was also running its own café, but it has now refocused its resources on the production side of the business (Interview Soren Sylvest 26.03 2015). Today, 50% of the company's revenue comes from B2B sales, the other 50% from B2C.

Estate Coffee's mission is: *"God kaffee begynder med god etik"* - Good coffee begins with good ethics. On their website Estate Coffee argues that with direct trade the company is able to cut out middlemen and develop a long term partnership with the producers with the aim to develop a product of highest quality (Chokolade Compagniet 2015). Estate Coffee puts great emphasis on the different taste profiles of their coffees. On the company's website customers can find their preferred coffee on a taste matrix that maps the different taste profiles according to body and sourness (Chokolade Compagniet 2015). Moreover, on each packaged coffee bag there are three bars indicating the body, sourness and roasting profile of the coffee. There is also a short description of the origin and the processes involved in producing the specific coffee.

Estate coffee uses the trademark Direct Trade®. The company has started to trade more directly as early as 1996 but has not used the term *"direct trade"* explicitly before the introduction of the trademark by The Coffee Collective in 2007. Some of Estate's coffees are also certified as organic, Fair Trade and/or Rainforest Alliance products.

Estate coffee currently sources from seven producers. Four of them are family-owned farms: Finca La Hermosa in Guatemala, La Minita and Las Gravilias in Costa Rica and Daterra in Brazil. The 180 hectares farm Finca La Hermosa in Guatemala is owned by Max Fernando Perez Rios, who is the third generation in his family to grow coffee in the Huehuetenengo region in Guatemala. Estate coffee currently buys two micro lots from his farm (Chokolade Compagniet 2015). Minita in Costa Rica is a farm of about 300 hectares owned by Bill McAlpin. The *"La Minita"* beans that Estate buys from this farm are the best beans produced on the farm, which is about 30% of the whole harvest. The La Minita coffee is one of the most sought after coffees among speciality roasters (Chokolade Compagniet

2015). The farm Las Gravilias in Costa Rica is in the third generation owned by the Fabrizio Marins family. Daterra is owned by the Pascoal family.

In addition, Estate sources from three co-operatives: The Murue and the Kibugu co-operatives in Kenya and the Jose Alfredo Zoledon co-operative in Nicaragua. The Kenyan co-operatives Murue owns four wet mills that are shared by 680 families, who each harvest around 300 coffee trees. The Kinugu co-operative is comprised of five mills and 850 associated families. The 170 member farmers of the Jose Alfredo Zoledon co-operative in Nicaragua produce together 900 tons of coffee, among them some of the best coffees in Nicaragua according to the Cup of Excellence (Chokolade Compagniet 2015).

Table 7: Overview suppliers Estate Coffee

	Country	Type	Ownership structure	Size and production volume	Other activities
Finca La Hermosa	Guatemala	Farm	Family owned	180 hectares	
Minita	Costa Rica	Farm	Family owned	300 hectares	Online auction, export
Las Gravilias	Costa Rica	Farm	Family owned	N/A	
Daterra Coffee	Brazil	Estate	Luis Noberto Pascoal	3.200 hectares; 4.200 tons/ year	Cupping, packaging, marketing, export
Muru	Kenya	Co-operative	680 families	N/A	
Kibugu	Kenya	Co-operative	850 families	N/A	
Jose Alfredo Zoledon	Nicaragua	Co-operative	170 farmers	900 tons/ year	

Additionally, Estate coffee has leased a micro lot at the Rio Verde farm in Brazil. The trees from this lot were awarded in the 1999 Cup of Excellence (Chokolade Compagniet 2015).

Sylvest describes the producers as *"business friends"* (Interview Soren Sylvest 26.03 2015). The relationship between Estate coffee and the producers often develops over many years and Sylvest has known some of the producers and their families for more than 10 years (Interview Soren Sylvest 26.03 2015). One example is Luis Pascoal, the Chairman of Daterra, who Sylvest also met when Pascoal visited the company's buyers in Copenhagen.

4.2 ANALYSIS OF VARIABLES

The following analysis is based on the data I collected in the interviews, during visits to the roasting and café facilities, and by reviewing the case companies' websites, blogs, coffee packaging and other marketing material. For the interviews, I approached the data collection from two angles: Some of the questions were designed to give insights to the roaster's perception of governance in the direct trade chain in regards to the three variables (A) complexity of transactions, (B) ability to codify transactions and (C) supplier capabilities. Other questions were not related to the variables in order to find out if there are rival explanations to the governance model proposed by Gereffi et al.. The structure of the chapter follows my research approach. I first present the findings related to the pre-defined variables and then explore other observations that emerged in the interviews.

Variable A: Complexity of transactions

All roasters emphasized that they are looking for beans that are not only above a certain quality level, but also taste distinctively different from the mainstream and from each other:

> "We have criteria that are more simple like cleanness and sweetness. But on top of this we want to have coffees that taste very different. We do not want to have coffees from all over the world if they all taste similar" (Interview Peter Dupont 21.01 2015).

Finding coffee growers, who are producing high quality beans is not an easy task. This is because the trade structures of the mainstream coffee trade are not designed to reward quality. Beans from a number of farms are thrown together before export and most farmers do not know how their beans will be roasted or consumed. Thus, farmers have no incentive to invest in improving quality and most will choose to produce as much coffee as possible at minimum cost.

In order to identify coffee beans of premium quality new trade structures had to be created. The Cup of Excellence auction founded by George Howell, an American pioneer in speciality coffee, is an example. The Cup of Excellence is a competition of the best micro lots organized by the US-American NGO Alliance for Coffee Excellence. The winning coffees enter an auction and regularly achieve prices well above the commodity price (Alliance for Coffee Excellence 2015). Both Sylvest and P. Dupont mention the Cup of Excellence as a source for identifying high quality coffee producers. Furthermore, roasters ask local experts, their existing suppliers or other micro roasters for leads (Interview Soren Sylvest 26.03 2015).

Roasters look for high quality micro lots with unique taste profiles in order to offer diverse and unique taste experiences to their customers. For a co-op it is a more complex and expensive process to produce a micro lot, because the beans from a certain lot have to be separated from other beans through the process from the picking to the point when they are going to be sold (Interview Kurt

Dalsgaard 16.01 2015). Furthermore, the beans have to be exported quickly after the harvest in order to preserve quality. Their quest for quality also requires the roasters to work with an exporter to facilitate and insure the trade:

> "[...] It is very much about insurance. Many farms are not ready to work as traders, because there is a big risk involved. In my opinion, even though we call is direct trade, in order to be able to sleep at night everyone needs the exporter" (Interview Kurt Dalsgaard 16.01 2015).

Thus, the roasters' extremely high quality expectations are making the transaction more complex compared to mainstream coffee trade.

Once identified, roasters also experience difficulties in securing a steady supply of distinct and high-quality beans. Complexity comes in three different dimensions: (1) Restricting national or regional regulation in some exporting countries, (2) natural volatility of the supply due to the biannual harvesting cycle and plagues or draughts, and (3) competition between roasters for the highest quality beans.

Firstly, roasters experience complexity in coffee trade mainly on an institutional level. National regulation can become a problem when it is for example forcing producers to work with certain exporters. This often prolongs the time between harvest and export - in some cases for so long that the quality drops significantly (Interview Peter Dupont 21.01 2015).

> "There is a lot of money in coffee. It is often underestimated how political it is, even on a global scale" (Interview Peter Dupont 21.01 2015).

The Coffee Collective and Estate Coffee both experienced a situation that had become to complex to continue the trade relationship. Both eventually stopped sourcing from Ethiopia because they experienced complications and export delays due to national exporting laws (Interview Peter Dupont 21.01 2015; Interview Soren Sylvest 26.03 2015).

> "We do not hold an Ethiopian coffee in our range, because it is simply to complex to get through with our trading philosophy. [...] It is a changing ballgame from year to year and we do not have the resources to cope with that" (Interview Soren Sylvest 26.03 2015).

Contrary to what one might expect, the roasters do not see any communication issues in regards to cultural or language barriers:

> "On a personal level I don't see any issues. Because if the producers have achieved a certain level of quality, they also have other [business] competences. And if it is only the language then we can find a solution" (Interview Soren Sylvest 26.03 2015).

Secondly, the taste and quality of the beans is subject to natural volatility from harvest to harvest. Coffee is a product grown in nature and extreme weather events like droughts can affect quality in a way that no farmer can predict or mitigate. Another example is the recent coffee rust plague. Dalsgaard and Dupont predict that coffee rust will become more frequent with rising global temperatures (Interview Kurt Dalsgaard 16.01 2015; Interview Peter Dupont 21.01 2015).

Thirdly, Dupont sees a trend towards more competition between roasters to gain access to certain producers:

> "Kieni [in Kenya] is a very popular region right now. There is a lot of interest in their coffee. My colleague was down there last week and you can see on Twitter that a lot of other roasters are going there right now. And we already know that we are competing for the coffee" (Interview Peter Dupont 21.01 2015).

In order to meet this multi-layered complexity, roasters rely on building personal ties to the producers. According to Dupont the benefits are that roasters and suppliers built up a mutual dependency and trust in the trade relationship:

> "I think we have an advantage. When we have been buying from a producer for some years - they will prefer to sell to us over anyone else" (Interview Peter Dupont 21.01 2015).

Summing up, roasters experience complexity in two ways. For one, roasters need to identify coffees that do not only satisfy the highest demands in regards to physical bean quality but also offer unique taste experiences. Additionally, they experience complexity in securing a steady supply of those coffees. Here, roasters deal with multi-dimensional complexity: National or regional regulation restricting coffee trade, volatility of supply due to the biannual harvesting cycle and natural weather events, and competition between roasters. Hence, the complexity of the transactions differs between different producing countries and suppliers. In one case, national regulation can be the main driver of complexity, a case in point is Ethiopia. In another case, competition with other roasters can be the main obstacle, for example when buying coffee from a farm that is highly sought after due to good

Cup of Excellence scores. All in all, I argue that the complexity of transactions in direct trade is high and I assign the value *"high"* to Variable A.

Variable B: Ability to codify transactions

Mainstream coffee roasters define quality in quantitative terms, i.e. the number of defects in a sample of beans. As mentioned above, micro roasters have quality expectations that go beyond this. Dupont argues that the way speciality roasters work with quality is more challenging, because some aspects of quality are not quantifiable:

> "The way we work with quality is more complex than physical and quantitative measures. It is also more difficult to exchange the understanding of what is quality with the producers" (Interview Peter Dupont 21.01 2015).

If counting defects is not sufficient, certifications could be a way to codify quality expectations. Two case companies - The Coffee Collective and KONTRA Coffee - have decided not use third-party certifications at all, for different reasons. Dupont argues that for The Coffee Collective certifications are not necessary because the trust in the producer is making them obsolete:

> "I would understand that the reason for a certification is mostly to have a guarantee for sustainability in the production. I think it is much better that we go to the producers, because then we also share our values" (Interview Peter Dupont 21.01 2015).

For KONTRA Coffee the main argument for waiving third-party certifications is that the company wants consumers to trust the KONTRA coffee specialists to choose the best coffees (Interview Kurt Dalsgaard 16.01 2015). For the third case company, certifications are a tool to diversify the product offering. Around 40% of Estate coffee is certified as organic. However, Sylvest points out that the certification is not used as a proxy for premium taste or quality beans. Rather, it is a demand from companies and canteens in the B2B market and a way to differentiate the product offering in the B2C market. The roaster also emphasizes that in a purchasing decision a certification will never overrule taste (Interview Soren Sylvest 26.03 2015).

Certifications could also function as a way for roasters to monitor the production processes at the producer, for example in regards to fair labor and/or environmental sustainability. Sylvest and Dupont both argue that the yearly visits to the producers are a superior method to monitor sustainability in the production. Sylvest points out that neither certifications nor the yearly visits from roasters are a guarantee that production is run socially and environmentally responsible all year round:

> "In direct trade you try to look and ask around. But you are not there all the time. So you look the guy [the farmer] in the eyes and trust him" (Interview Soren Sylvest 26.03 2015).

Moreover, Dupont argues that *"organic certification does not work in coffee production"*, because the investment to obtain the certification and the risk to loose the crop to a plague are too high for small coffee producers. The organic certification is, furthermore, excluding criteria like waste water management, which is a major source of pollution in coffee production.

> "[The organic certification] is not bringing sustainability as I see it, because there is much more to the coffee business. The trade structure is still this post-colonial structure. Producing countries are not colonies any more but we [mainstream roaster] are still paying the same price for the product. [...] the way to solve this is to pay a price that is actually paying for the work and the social and the environmental cost that are related to the production" (Interview Peter Dupont 21.01 2015)

Even though roasters work with the same producers year by year, they normally do not give a guarantee to the farmer for the next years' trade volume or price:

> "The farmers [...] that we are working with year by year know what we are asking for and that they get a good price. But this is informal [...] and we negotiate all the time" (Interview Kurt Dalsgaard 16.01 2015).

Rather, roasters see the need to taste the new harvest every year before they can make a commitment to buy:

> "We do not give a guarantee to buy. We guarantee that we come back next year to taste the coffee. And if we like it we will buy it again. But we rather built a relationship on trust than on promises" (Interview Peter Dupont 21.01 2015).

This example shows that roasters are not able to codify the quality and taste characteristics they are looking for, but see a need to taste every new harvest. However, there are exceptions: KONTRA Coffee, for example, is involved in a CSR project, which pays farmers in Sumatra a set premium to conserve the rainforest around their farms and the livelihood of Orang-utan monkeys (Interview Kurt Dalsgaard 16.01 2015). For Estate coffee, the policy is that the company pays outright prices that do not vary from year to year, but the roaster is still assessing the quality each year to decide if the trade relationship will be continued next year (Interview Soren Sylvest 26.03 2015).

In addition, tasting and identifying premium quality coffee requires the roasters to rely on tacit knowledge:

> "Working with coffee [and tasting it] is something that you get experience with over the years, something that you cannot just write down and read to get a feeling for. I feel there is an increased knowledge just from experience (Interview Kurt Dalsgaard 16.01 2015).

One of the roasters has also experienced a case, where the coffee he bought was actually not grown on the farm that he visited:

> "They had been selling us Valpariso coffee without owning the [Valparaiso] farm. And they even showed me around that farm. [...] What happened was that they had supplied us with coffee from the other farm that they still owned" (Interview Soren Sylvest 26.03 2015).

Through this experience the roaster realized that *"you cannot recognize coffee"* (Interview Soren Sylvest 26.03 2015). The interesting point here is that the origin of the coffee is so difficult to identify *because* the taste profile is so special. The reason is that roasters are increasingly looking for interesting cup profiles, which are special due to soil or plant varieties and do not necessarily taste like other coffees grown in the region.

Sylvest concludes that *"even with annual visits, things like this can happen, if you do not work with an honest player"* (Interview Soren Sylvest 26.03 2015). Thus, there is a need for trust and a good relationship between roaster and farmer to mitigate the information asymmetry around the quality of the beans and production processes.

To put it in a nutshell, roasters find it difficult to codify the features they are looking for in regards to bean quality and taste. Certifications, like organic or Fair Trade, are used to diversify the product offering or because they are requested by business customers. They do not function as a proxy for premium taste or quality. Furthermore, roasters see a need to taste every harvest and do not give buying guarantees even if they have been working with a producer over many years. Thus, I consider the roasters' ability to codify the transactions to be low and assign the value "low" to Variable B.

Variable C: Supplier capabilities

The data suggests that the three roasters have similar perceptions of the capabilities of their suppliers. In general, the roasters describe the relationship to all of their suppliers to be one of appreciation and mutual dependency:

> "Basically, it is good relations and we are on the same team to provide the best coffee. And we depend on each other for that" (Interview Soren Sylvest 26.03 2015).

All roasters work with a range of suppliers in different countries, of varying size, professional competencies and knowledge sets:

> "Coffee farmers in Columbia and a coffee farmer in Brazil is not the same thing. The average size of a coffee farm in Columbia is 1.5 hectare. An average coffee farm in Brazil is 300-500 hectare. In Brazil, coffee farmers are independent farmers, who are able to participate themselves in trade shows in Europe. They have a marketing department. [...] In all other countries, small farmers are organized in co-ops. [...] Co-ops are very integrated and social constructions that are important to the community and they are also the representatives of the region's coffee. They go to the trade shows in Europe or take contact to a coffee trader or roaster. Sometimes a co-op in Columbia could represent 5000 small farmers" (Interview Kurt Dalsgaard 16.01 2015).

Correspondingly, the case companies change their approach depending on the supplier they are working with (Interview Kurt Dalsgaard 16.01 2015; Interview Peter Dupont 21.01 2015; Interview Soren Sylvest 26.03 2015):

> "They [our suppliers] are very different. [...] Daterra is a huge coffee quality factory in a way. [...] The producers in Kenya generally do not drink coffee they drink tea. [...] So when we go there [...] we try to get them to do cupping with us and [...] we try to get their understanding of what is a good flavor [...] and how they can relate it to what they have been doing [in the production process]" (Interview Peter Dupont 21.01 2015).

The roasters also consider the importance of the trade relation in regards to the financial vulnerability of the producer. Søren Sylvest, managing director of Estate coffee, compares the way his company is approaching a Guatemalan family farm versus the large-scale Brazilian producer Daterra:

> "Of course I look at farmers differently: From Las Gravilias, the family of Fabrizio Marins, we purchase the main part of their crop [...] The 200 bags we buy from them is much more important to them than the 200 bags we buy from Daterra. So I look at how we are economically grounded in comparison to the other party. With Las Gravilias we are more responsible. We listen to their projects [...] and we helped them with an extra one-year premium to fight Roya [Spanish for coffee rust]. With it is up to them to solve their issues and we solve ours" (Interview Soren Sylvest 26.03 2015).

The Brazilian coffee farm Daterra stands out among the pool of suppliers that the three case companies are sourcing from. First of all, Daterra is the only producer that supplies coffee to all three case companies. A second differentiator is its size. Another distinguishing feature is Daterra's strategic focus on sustainability, traceability and quality coffee production. The company has invested heavily in improving growing methods and processes to developed a system to track the quality of the produced beans in planting, harvesting, drying, sorting and packaging processes (Daterra Ltda. 2015a). Sylvest suggests that the company was able to experiment with processes and quality, because the owner is not reliant on the income of the farm (Interview Soren Sylvest 26.03 2015).

Daterra is an example for a coffee grower that is specialized in meeting roasters' needs: The company's web page provides detailed information on sustainability initiatives, philanthropic involvement and certifications. Moreover, roasters can read up on the characteristics of the different Daterra coffee varieties in a virtual tasting room. Daterra even suggests roasting and brewing methods for each of their varieties (Daterra Ltda. 2015a). Daterra has a very well developed quality lab for sample roasting and tasting (Interview Peter Dupont 21.01 2015). Additionally, the farm is investing in developing software to identify intrinsic attributes of different coffee varieties. The aim is to be able to track specific coffee beans back to their origin based on the characteristics of the beans (Daterra Ltda. 2015a).

Furthermore, Daterra has a new approach to marketing its coffee. The company was the first independent farm to market its coffee at coffee trade shows in Europe (Interview Soren Sylvest 26.03 2015). Sylvest argues that Daterra has been *"building up a coffee brand over the last 15 years"* (Interview Soren Sylvest 26.03 2015). Daterra's highly professional approach to marketing its brand to international speciality roasters - and end-consumers - is showcased on the company's website and social media channels. The data suggests that Daterra is now in a position, where the farm can choose who to work with and in which way:

> "As I understand, Daterra prefers to have importers in each region. But due to the relations we have with the owner and the history, both Copenhagen roaster [Estate coffee's roastery] and The Coffee Collective have direct trade relations and we also purchase substantial amounts of bags from them to be able to do that" (Interview Soren Sylvest 26.03 2015).

Sylvest points out that Daterra is not the only coffee farm that is building up its own brand. A number of farms, for example in Guatemala, are run by second or third generation farmers, who are often well-educated and well-connected people with access to communication and marketing tools (Interview Soren Sylvest 26.03 2015). However, this does not mean that farmers are connecting to the end-consumer. The brands they create speak first and foremost to roasters and importers rather than end-consumers. Sylvest emphasizes that brand-savvy producers are a step in the right direction:

> "The more aware they are that their coffee should also be a brand - and their farm should be a brand, the better coffee they provide" (Interview Soren Sylvest 26.03 2015).

Some suppliers (e.g. Kieni in Kenya) do not have the same theoretical knowledge about coffee production and trade as others (e.g. Daterra in Brazil). Nevertheless, the roasters emphasize that all their suppliers have the capabilities to produce premium quality coffee. Hence, there are two different sets of capabilities that need to be considered: Core capabilities in regards to growing and processing coffee and supportive capabilities, i.e. marketing and buyer management.

All interviewees emphasized that they respected and valued the farmers' knowledge regarding the core set of capabilities, namely harvesting practices and coffee bean production. Dupont points out that although The Coffee Collective has a lot of theoretical knowledge, there is knowledge from experience that only the coffee farmers have.

> "We have some theoretical idea [...] but we respect that they [the producers] have the whole picture of understanding of the practical production. Maybe they do not have all the theoretical knowledge, but they have a lot of practical experience that we don't have" (Interview Peter Dupont 21.01 2015).

Dalsgaard emphasizes that the knowledge to growing quality coffee is very much local and often something that is not written down but passed on through generations of coffee farmers:

> "I am quite humble when it comes to tell coffee farmers what to do. I think we know how to sell their coffee, but we don't know much about growing. They actually know very well what to do. [...] They have been growing coffee for generations and maybe they are not very professional and they do not record anything, but they know from their farther what to do. [...] It is not something you can read in a book. You need to have a certain feeling" (Interview Kurt Dalsgaard 16.01 2015).

Nevertheless, roasters do feel comfortable to share a best practice case or to connect farmers that experience similar problems in some cases, e.g. with coffee rust.

> "We are not agronomists. But of course if we have a best practice case [...] we would tell the farmer" (Interview Soren Sylvest 26.03 2015).

However, the roasters agree that even though they give advice they want to be on par with the producers and not superior to them. Dupont has a strong view on this. He calls it *"dangerous"* that more and more roasters are going to origin and thoughtlessly give advice to producers, because they often do not understand neither the local particularities of the climate and soil nor the farmer's situation (Interview Peter Dupont 21.01 2015). To avoid misleading producers, who are eager to enter a direct trade relationship with a roaster, The Coffee Collective waits until the third year to start suggesting improvements:

> "At that time we have built up a trust and they know what we are about. And then they can themselves judge how much they want to put into advice from us, and if they want to invest or not" (Interview Peter Dupont 21.01 2015).

In general, the roasters trust the producers to make the appropriate investment decisions. Contrary to Fair Trade the direct trade premium that roasters pay on top of the market price in is not tied to any conditions.

> "We want to pay a good price for quality and let the farmer take the decision on what to invest in" (Interview Peter Dupont 21.01 2015).

The most pressing indication that roasters do consider producers' expertise as a valuable addition to the value chain is the fact that they do not consider to integrate vertically to own an estate:

> "We do not believe in owning own plantations, but in supporting the farmers in what *they* do best: growing coffee" (Dupont 2015).

> "Way back I was dreaming of it [owning a plantation]. But then I looked into it and I realized that it is not in reach and it is not important. And why is it not important? Because we could not do it better than those guys who are doing it since generations" (Interview Soren Sylvest 26.03 2015).

To sum up, roasters acknowledge that their suppliers have location specific knowledge that they have gained during many years of harvesting coffee. Roasters see their own area of expertise in roasting and marketing and do not consider to vertically integrate the production. One can observe differences in capabilities when comparing different suppliers. However, these differences concern non-core capabilities like marketing and branding. Thus, the data suggests that suppliers in direct trade chains have high supplier capabilities regarding their core competency - growing and harvesting coffee. Accordingly, I assign the value *"high"* to Variable C.

Other observations

Another interesting observation is that there appears to be a trend towards exclusive agreements between roasters and farmers. Roasters in the same city do not want to offer coffee from the same producers, rather "*[...] the spirit is that [every roaster] has his own relations and is unique in the farmers he sources from"* (Interview Soren Sylvest 26.03 2015). For example, Estate coffee has an agreement with a supplier in Guatemala:

> "Max Perez in Acatenango made an agreement with us that he would only sell to us in Denmark, and we would only buy from him in the Acatenango region" (Interview Soren Sylvest 26.03 2015).

However, this does not mean that one roaster would buy the full harvest from the supplier. Most farmers sell to a number of roasters to reduce the dependency on the buyer. Vice versa, roasters buy from a variety of farmers to offer diversity in taste and origins to their costumers.

Another observation is that although the term direct trade describes a more direct relationship between roaster and producer this does not imply that there are no other actors in the chain:

> "[...] I know the farmer at the Horizontas farm, but there is still an exporter and a transport company that are also part of the supply chain. Still I consider it to be direct trade as we buy a full container of coffee from exactly this place. But there is still several links between us and the farmer. [...] And to me that is important. I think everybody is worth having because it makes the trade easier" (Interview Kurt Dalsgaard 16.01 2015).

What becomes very clear in the interview data is that quality is the primary motivation for engaging more directly with the producers. However, personal principles and a strong belief that quality coffee benefits the producers are not to be neglected:

> "With quality comes ethics. [...] If a farmer can sell his coffee as a micro lot, he can double his income. And that is where ethics comes in, because it will change his way of living. Quality coffee is going to drive a better living standard for him. [...] We hope that we can empower the producers to make a better living and get closer to a sustainable coffee production " (Interview Kurt Dalsgaard 16.01 2015).

> "We are enthusiastic people who want to share the experience we get from understanding coffee" (Interview Soren Sylvest 26.03 2015).

In addition, the direct contact to the producer is used to create stories around coffee that help the roasters to communicate to consumers why directly traded coffee is significantly more pricy that supermarket coffee.

> "It is easier to have them [the customers] appreciate direct trade than it is to have them appreciate different taste profiles" (Interview Soren Sylvest 26.03 2015).

For the coming years, the interviewed roasters predict a slow growth in directly traded coffee and a further diversification of taste profiles.

> "When it comes to quality coffee I consider year 2000 to be year zero. Up to 2000 [...] we were just beginning to tell stories about coffee, but it was produced the same way it had been for hundreds of years. But during the last 15 years, they [producers] started to improve and

experiment [...] and we are beginning to see a variety of flavors and tastes from different origins" (Interview Kurt Dalsgaard 16.01 2015).

> "I believe we will see a more complex market of coffee [flavors and origins] in the future. Maybe a bit like the wine market" (Interview Kurt Dalsgaard 16.01 2015).

However, they are also aware that the percentage of directly traded coffee is small and that the traditional coffee market is only slowly moving in the direction of more traceability and sustainability in coffee production and trade.

> "[...] 99% of the coffee is still traded in systems where Western based companies are extracting value and they are the ones having the power. [...] We are moving in the right direction, but slowly. I think the market is dividing into a big group concerned about producing the cheapest possible commodity and then a speciality group where direct trade and transparency will be possible" (Interview Peter Dupont 21.01 2015).

Furthermore, Dalsgaard foresees that large retailers will enter the speciality segment and built direct trade chains:

> "They [supermarket chains] have been watching what we have been doing and they are going to do the same. They will do it more professionally and with more money to invest in it. [...] But then people like us [speciality roasters] need to move one step ahead and we need to be even better and add new dimensions to the coffee trade" (Interview Kurt Dalsgaard 16.01 2015).

Big retail is indeed discovering single origin coffee as an addition to their product offering. For example, Denmark's largest retailer Coop Denmark A/S has introduced a single estate coffee at its newly opened concept store MAD Cooperativet in the Copenhagen central station (see Appendix 6).

To sum up, the interview questions that were designed to explore chain governance outside the three Gereffi et al. variables did indeed trigger some interesting observations. However, none of these observations are rival explanations to the three Gereffi et al. variables. The following section examines the explanatory power of the variables in more detail.

Explanatory power of the Gereffi et al. variables

The analysis of the data suggests that all three case companies experience high complexity of transaction (Variable A), low ability to codify transaction (Variable B) and high supplier capabilities (Variable C) in their supply chains. The table below summarizes the analysis:

Table 8: Explanatory power of the Gereffi et al. analysis framework

	Observed value	Observed variance within the variable	Expected value (Gereffi et al.)	Explanatory power of the variable
Case Company 1: KONTRA Coffee				
Variable A: Complexity of transaction	High	Little variance Increasing complexity due to increasing quality volatility with climate change in some regions	High	High Variable sufficiently explains the observations
Variable B: Ability to codify transaction	Low	No variance Ability to codify transaction is low in all supplier relations	Low	Very high Variable captures the observed situation
Variable C: Supplier capabilities	High	Some variance Supplier capabilities vary with size, region, social function	High	Medium Variable does not capture difference in suppliers' core versus complementary capabilities
Case Company 2: The Coffee Collective				
Variable A: Complexity of transaction	High	Some variance Higher complexity in Kenya and Ethiopia due to national regulation; higher complexity with increased competition between roasters	High	Medium Variable does not differentiate between different dimensions of complexity
Variable B: Ability to codify transaction	Low	Little variance Some challenges in communicating quality to farmers that traditionally do not drink coffee (Kenya)	Low	High Variable sufficiently explains the observations
Variable C: Supplier capabilities	High	Some variance Substantial differences between suppliers regarding non-core capabilities	High	Medium Variable does not capture difference in suppliers' core versus complementary capabilities
Case Company 3: Estate Coffee				
Variable A: Complexity of	High	Some variance Higher complexity due to	High	Medium Variable does not

transaction		national regulation in Ethiopia		differentiate between different dimensions of complexity
Variable B: Ability to codify transaction	Low	Some variance: Challenge to detect a producer lying about the origin of the sourced beans	Low	High Variable sufficiently explains the observations
Variable C: Supplier capabilities	High	Some variance Differences in the financial stability of the suppliers	High	Medium Variable does not capture suppliers' economical situation

The data shows that within each of the variables there is some internal variation. For example, The Coffee Collective experiences that sourcing a steady supply of high quality beans generally involves managing complex transactions. However, the degree and type of complexity varies between the different suppliers. In the relationship with the Kenyan co-operative Kieni the main driver of complexity is national regulation. Additionally, the farmers in Kenya traditionally do not drink coffee, which makes it challenging for The Coffee Collective to explain to the farmers what kind of taste they are looking for in the beans. The trade with another supplier, Hacienda La Esmeralda in Panama, can be described to be less complex in regards to establishing a mutual understanding of quality. Here the main driver of complexity is the competition from other roasters looking to buy the same coffee.

Table 8 shows that the three variables identified by Gereffi et al. are able to explain the observed governance structure in the direct trade chains. The high complexity of the transaction and the low ability to codify the transaction are clearly visible in the data. The chain governance that was described during the interviews is well captured by those two variables. The explanatory power of the third variable is not as high, but sufficient. The interviewees describe substantial differences between suppliers in regards to complementary capabilities like marketing and exporting. Thus, variable C is not able to fully capture the observed variance between suppliers.

Taken together, the Gereffi et al. framework suggests that the observed direct trade chains are characterized by relational governance. Relational value chains are networks of complex interactions between buyers and suppliers that are managed through reputation and personal ties (Gereffi, Humphrey, and Sturgeon 2005).

5. DISCUSSION

In this section I reflect upon the findings of my analysis and return to my research questions:
1) Why are speciality coffee roasters sourcing directly from suppliers?
2) How are direct trade chains governed?
The findings are discussed in terms of their empirical and theoretical implications. The theoretical implications are divided into those addressing the explanatory power of the Gereffi et al. governance framework and those contributing to the literature on direct trade.

5.1 EMPIRICAL IMPLICATIONS

The interviews revealed that it is relational governance that characterizes the trade relations between the three case companies and their suppliers. The roasters rely on relational governance in the face of a combination of high complexity of transaction, a low ability to codify the transaction and high supplier capabilities in harvesting coffee. Furthermore, the analysis showed that roasters apply direct trade as a strategic tool to:

a. Identify and secure exceptional quality coffees;
b. Tailor the trade relationship to differences in supplier capabilities;
c. Communicate product value to consumers;
d. Manage volatility and change in the global coffee market.

The global coffee market is not designed to facilitate the trade of small volumes of selected high quality coffee. For one, the commodity market does not reward growers for producing exceptional quality. Additionally, the institutions to identify quality coffee beans and unique taste profiles are missing. An exception is the Cup of Excellence auction. Consequently, it is a challenging market for roasters that want to offer unique taste experiences to their customers.

Roasters turn to direct trade to identify and secure a steady supply of high quality coffees with unique taste profiles from selected suppliers. Roasters deal with high complexity in the transaction caused by restrictive national or regional regulation in some exporting countries, natural volatility of the supply due to the biannual harvesting cycle and plagues or draughts, and competition for the highest quality beans.

To meet this complexity, direct trade roasters create personal ties to a small number of selected suppliers. Generally, relational value chains benefit from spatial proximity of the actors. The three case companies in this study are located on different continents than their suppliers, but they built up personal ties and trust through regular visits to the suppliers and fair trade practices. Additionally, mutual dependencies are created: Roasters trust suppliers to provide a steady supply of exceptional quality coffee that will not disappoint costumers. Suppliers trust roasters to continue to pay premium prices for quality at the next harvest.

Thus, the choice to built personal ties with suppliers in a direct trade relationship is a strategic one for the roasters. Direct trade allows them to access coffee beans of a quality that they would not be able to obtain on the coffee commodity market.

Furthermore, the direct contact to the suppliers allows the roasters to adjust each trade relationship to the individual supplier. The analysis has revealed that roasters approach suppliers differently depending on the supplier's size, economical situation, and capabilities. While all of the roasters' associated suppliers are highly skilled coffee growers, their capabilities in non-core activities vary. Some have developed the skills to actively market their products internationally to speciality roasters and locally to coffee farm tourists. Examples are Daterra in Brazil and Hacienda Horizontes in Colombia. Others suppliers are smallholder farmers vulnerable to market fluctuations and restricting regulations.

Concluding, one can say that direct trade is by definition a flexible model where each trade relationship can be adjusted to fit the circumstances of the transaction. This is especially valuable in the coffee business, where substantial differences exist between countries and regions in terms of how coffee is grown and traded, but also between individual suppliers.

Direct trade is not only strategic in regards to the sourcing of the coffee beans, but also in the communication of product value to the end-consumers. The key to selling specialty coffee is differentiation: If customers are to be attracted to paying a premium for quality coffee, it must taste significantly better than the average commodity coffee. The further away a coffee gets from the baseline, the better. Telling the story of the coffee *"from crop to cup"* and the benefits to farmers is also part of the value proposition of directly traded coffees. One of the roasters has even pointed out that it is easier to get consumers to appreciate direct trade than a unique cup profile.

Roasters enhance the perceived value of the product by communicating to consumers that there are also ethical reasons to support high-quality coffee. The Coffee Collective and Estate coffee connect coffee quality and ethics in their mission statements. It is interesting to note that The Coffee Collective and Estate coffee, both with a stronger focus on the end-consumer, communicate the link between ethics and quality very explicitly. KONTRA Coffee with 90 per cent revenue from B2B customers puts more emphasis on communicating bean quality. Studies have shown that the link between ethical production and consumer' willingness to spend is not as strong as surveys might suggest (Devinney, Auger, and Eckhardt 2010). However, in speciality coffee ethics are not replacing quality. The contrary is the case: Roasters would never compromise quality. In addition to offering a premium quality product, they encourage consumers to see ethics and quality as intrinsically connected.

As described above speciality roasters are sourcing in a complex niche market. In addition to its inherent complexity, the market for premium quality coffee is a dynamic one. In order to deal with changes in the market, roasters rely on the personal relationship with suppliers as a stabilizing element in the trade relation.

At the moment, roasters are experiencing increasing competition for high quality beans as more speciality roasters are going to origin and compete for the best coffees. Furthermore, competition is expected to increase further as rising temperatures threaten future Arabica harvests. With personal relations in place it is less likely that roasters will loose suppliers when power structures change. Evidence for this can be seen in the relation that the roasters have with the Brazilian supplier Daterra. Daterra has evolved from being a personal hobby to a highly professional supplier of high quality coffee. Nowadays, Daterra prefers to sell to only one importer per region. However, because of the history and the personal ties that exist between the farm owner and The Coffee Collective and Estate Coffee, both roasters are able to continue to buy directly from the farm. A similar case could be observed when The Coffee Collective ran out of their single origin from Hacienda La Esmeralda. Although the auction was already closed, the roaster was allowed to buy additional bags of the same harvest.

As large retailers are increasing their product offerings for ethically conscious consumers, speciality roasters will also experience pressure on their business model from the downstream side of their supply chain. Speciality roasters will have to offer consistently new coffee experiences to stay relevant to consumers. Further quality improvements and the discovery of new cup profiles are facilitated through close contact to suppliers, who possess the location specific knowledge needed to harvest premium quality beans. In sum, direct trade can also function as a vehicle for product innovation.

To conclude, direct trade is an integral part to the business model of the three speciality roasters that were subject to this study. Direct trade is a strategic tool to deal with high complexity in the market for premium quality coffee beans; to adapt to regional particularities and differences in supplier capabilities; to communicate product value to consumers; and to manage volatility and change.

Direct trade relationships are usually initiated by the roaster. Thus, it seems reasonable to assume that the roaster is the more powerful party in the relationship with greater knowledge of the global coffee market, close contact to end-consumers and greater financial security. This study has shown that this does not apply to all roaster-supplier relationships. During the 1990s when coffee prices were low, ethical trade movements like Fair Trade created the discourse of the small coffee farmer who is exposed to a global coffee market controlled by multinational traders and roasters. Today, this image is flawed. In the market for high quality coffee, there is a range of different types of coffee producers with varying degrees of financial security, international outreach, and influence on the supply chain.

One might argue that suppliers are dependent on the goodwill of one roaster to pay the same premium for quality beans for the next harvest. Although there are some cases of exclusive agreements between roasters and suppliers, they are not the norm. Usually, farmers sell to a number of speciality roasters. In order to be able to offer diversity in taste, roasters buy rather small volumes from a range of suppliers from different regions. Furthermore, roasters are striving to offer their customers unique taste experiences and roasters from the same region avoid buying from the same farmer.

Direct trade roasters emphasize that improving the farmers' living conditions is part of the purpose of a direct trade relation. The distinguishing aspect to other alternative trade schemes is that supporting the supplier is not seen as a charitable act, but as a sign of appreciation for a premium quality product. With a growing market for high quality beans, some suppliers have been able to create own brands and marketing strategies. Direct trade rosters are welcoming this development as it encourages suppliers to become even more aware of quality in production.

5.2 THEORETICAL IMPLICATIONS

The findings of this study hold implications for the application of the Gereffi et al. governance framework in general and the academic discussion on direct trade in particular.

Collectively, the three variables developed by Gereffi et al. are able to explain the governance structure in the direct trade chain. The analysis highlights some variance within the variables. While Variable A and B are able to explain the governance in the direct trade chain well, Variable C has limited explanatory power. The roasters' way of working with a certain supplier depends on the supplier's financial standing, size and capabilities. Actually, being able to adapt the trade relation to each individual supplier is a character trait of the direct trade model. Thus, there is a internal variance in Variable C that the Gereffi et al. framework is not translating into implications for the overall chain governance.

The Gereffi et al. framework is criticized for being too simplistic, for example by (Gibbon and Ponte 2005). The argument is that various forms of coordination can exist at different links in the value chain. In complex value chains with multiple links the governance mode at one link in the chain may indeed not reflect the overall governance of the chain. However, for the study of direct trade chains this restriction does not apply as there is by definition only one link in the chain.

To sum up, this study has confirmed that the conditions that lead to relational governance in direct trade chains are high complexity of transactions (Variable A), low ability to codify transactions (Variable B) and high supplier capabilities (Variable C).

In regards to the literature on direct trade the data holds two implications: First, academia has mistakenly put direct trade in one category with solely ethically motivated trade models, i.e. Fair Trade. Second, the data confirms that there is no widely accepted definition of the concept - neither in academia, nor in practice.

In the to-date existing literature, direct trade has been misunderstood as just another CSR initiative in line with Fair Trade and sustainability certifications. In general, studies on alternative trade models are a valuable starting point for understanding direct trade. However, findings from studies on ethical trade should not be applied one-to-one to direct trade. Direct trade is as much a strategic business choice as it is an ethical one. For the roasters interviewed in this study identifying and securing high quality coffees is the prime motivation for engaging more directly with producers. The roasters understand premium quality and ethical trade as two sides of the same coin. Thus, direct trade is not fully captured if it is understood as just another CSR initiative in coffee.

Another sign for the strategic nature of direct trade is the fact that roasters change the way they are interacting with a supplier to fit the supplier's capabilities. More recently, some producers have specialized on supplying high quality, certified coffee to speciality roasters. Examples are Daterra in Brazil and Hacienda La Esmeralda in Panama. These suppliers have developed own brands and begin to actively market their beans to independent roasters, e.g. at trade shows in Europe. They have become highly professional and powerful companies that are able to choose who they would like to sell their coffee to. If the roasters' motivation to trade directly would be based on ethics alone, the trade model would become trivial the moment producers no longer depend on the roasters' goodwill. This study has uncovered that the roasters' motivation for direct trade is a mix of personal values, passion for quality and business acumen.

In the literature the inequalities in value distribution along the traditional coffee chain are described as the "*coffee paradox"*. It is argued that costumers trust the roasters' brand reputation as a proxy for quality: the material quality of the coffee is not communicated to the consumer. Direct trade can be seen as a way to break this paradox. The trade model is changing quality conventions by passing on more information about the origin and quality of the beans to the end-consumer. The three roasters in the study actively try to educate consumers to appreciate taste and quality differences. They do this by sharing stories about their visits to the producers, organizing cupping events and printing detailed information about the origin of the coffee on the product itself.

Furthermore, the study confirms that there is no widely accepted definition of the term direct trade. Even in Denmark, where The Coffee Collective has registered the Direct Trade® trademark, there is confusion around the meaning of the term. The absence of a common understanding has led to a situation where many roasters state that they trade directly, but they do so with varying levels of directness.

This implies that it is difficult for academia to grasp the concept. In general, academia has paid little attention to direct trade. Existing research has focused on the ethical dimension of direct trade. Mostly, without providing a clear definition of what the term actually describes. This study has revealed that there is a strategic dimension to direct trade. Accordingly, I argue that any comprehensive definition of the term and further research on the concept should consider its strategic dimension in addition to ethical and sustainability aspects.

6. CONCLUSION

The findings of this study suggest that direct trade chains are characterized by relational governance. In the face of high complexity of transactions, a low ability to codify the transactions and high supplier capabilities, the case companies rely on trust, reputation and personal ties to manage the transactions. Moreover, the analysis has shown that direct trade is integral to the case companies' business model. The three case companies use direct trade strategically to (a) identify and secure exceptional quality coffees; (b) adopt the trade relationship to differences in supplier capabilities; (c) communicate product value to costumers; and (d) manage volatility and change in the global coffee market.

The global coffee market is not designed to facilitate the trade of small volumes of selected high quality coffee. The roasters interviewed for this study use direct trade to access coffee beans of a quality that they would not be able to obtain on the coffee commodity market. Additionally, roasters benefit from the flexibility of the direct trade approach as it allows them to adapt the trade conditions to supplier capabilities and the circumstances of the transaction. This is especially valuable in the coffee business, where substantial differences exist between countries and regions in terms of how the coffee is grown and traded, but also between individual suppliers. Furthermore, the roasters benefit from the direct contact to the suppliers when communicating product value to the end-consumers. Telling the story of the coffee beans *"from crop to cup"* is part of the value proposition of directly traded coffees. Additionally, roasters rely on the personal relationship with suppliers as a stabilizing element in a complex and volatile niche market.

The findings suggest that buying directly from suppliers is not only ethical but also good for business. Direct trade is reversing the *"coffee paradox"*: Speciality roasters are rewarding farmers for quality and in turn are able to differentiate their product offering in such a way that consumers are willing to pay a premium price for exceptional coffee quality.

The founders and managing directors behind the three case companies are personally involved in the trade relations with the coffee farmers and care about their development and wellbeing. Improving the farmers' livelihoods is intrinsic to their motivation to be in the coffee business. This study has found that there is more to direct trade than ethics. The roasters are not only passionate about ethics, but also about exceptional quality coffee. Accordingly, their motivation for direct trade is a mix of personal values, passion for quality and business acumen. Speciality roasters have understood that managing quality through direct trade is not only a more sustainable and ethical way to trade. It is good business.

This study contributes to the academic debate in two ways. First, the Gereffi et al. framework for global value chain governance was tested by exploring an extreme form of value chain governance. The analysis has confirmed that the conditions that lead to relational governance in the value chain are indeed high complexity of transaction (Variable A), low ability to codify transaction (Variable B) and high supplier capabilities. Second, the study revealed that academia has explored direct trade in a way too narrow to grasp all dimensions of the concept. Up to now, direct trade has been understood as an alternative to ethically motivated trade models like Fairtrade and Organic, which neglects its strategic dimension.

This study has presented an in-depth, small-n qualitative analysis of three roasters in the Copenhagen area, which can form the basis for broader research. This type of methodology is limited in terms of the questions it can help answering. Together, the three case companies make up around 70% of the Danish market for directly traded coffee. Nevertheless, it would add to the understanding of global value chains governance to study direct trade chains in other contexts, i.e. direct trade roasters in a different city or cultural context.

Furthermore, research should look out for the strategies that big retail is employing to further develop the speciality coffee segment and if large roasters and retailers will adopt direct trade as a strategic instrument for supplier management. Denmark's largest retailer Coop has recently introduced a single estate coffee its newly opened concept store MAD Cooperativet in the Copenhagen central station. During the last years large retailers have significantly grown their product offerings in regards to ethical and sustainable certified coffees. Supermarkets and coffee chains like Starbucks make use of the fact that consumers associate sustainability certifications with higher quality products. It seems like big retail is now discovering the strategic value of direct trade value chains. Further research should explore the motivation behind Coop's decision to add a single origin coffee to its product offering. Is this decision driven by the intent to cater to more quality-conscious customers? Or is Coop actually changing its sourcing practices to engage more directly with suppliers for strategic purposes?

Additionally, it would be interesting to explore direct trade chain governance from the suppliers' point of view. A direct trade relationship is mostly initiated from the side of the roaster evoking the question if there is a risk for suppliers to be dependent on the roasters' goodwill and willingness to pay a premium price for quality. This study has uncovered that some suppliers are developing their own coffee brands and new capabilities in marketing and export. Another question that comes to mind is therefore: Is direct trade strategic not only for the roasters but also for the suppliers?

Summing up, further analysis is needed to truly understand governance in direct trade chains. The academic contribution of this study has been to show that there is a strategic dimension to direct trade. Going forward, research should further explore this strategic dimension of direct trade in addition to ethical and sustainability considerations.

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APPENDIX

Appendix 1: Brands owned by the three largest international roasters

International roasters hold a broad portfolio of differentiated brands

Holding company	Brand	Market share
Nestlé SA	Nescafé	16.30
Nestlé SA	Nespresso	3.10
Nestlé SA	Nescafé Dolce Gusto	1.20
Nestlé SA	Dolca	0.30
Nestlé SA	Zoégas	0.20
Nestlé SA	Bonka	0.10
Nestlé SA	Diplomat	0.10
Nestlé SA	Papagalos Loumidis	0.10
Nestlé SA	International Roast	0.00
Mondelez International Inc	Jacobs	3.10
Mondelez International Inc	Carte Noire	1.50
Mondelez International Inc	Maxwell House	1.00
Mondelez International Inc	Maxim	0.90
Mondelez International Inc	Tassimo	0.70
Mondelez International Inc	Gevalia	0.40
Mondelez International Inc	Blendy	0.40
Mondelez International Inc	Kenco	0.40
Mondelez International Inc	Splendid	0.10
Mondelez International Inc	Café Hag	0.10
Mondelez International Inc	Jacques Vabre	0.10
Mondelez International Inc	Samar	0.10
Mondelez International Inc	Saimaza	0.10
Mondelez International Inc	Onko	0.00
DE Master Blenders 1753 NV	Senseo	1.00
DE Master Blenders 1753 NV	Douwe Egberts	0.80
DE Master Blenders 1753 NV	Pilão	0.80
DE Master Blenders 1753 NV	L'Or Espresso	0.50
DE Master Blenders 1753 NV	Moccona	0.40
DE Master Blenders 1753 NV	Maison du Café	0.20
DE Master Blenders 1753 NV	Café do Ponto	0.20
DE Master Blenders 1753 NV	Prima	0.20
DE Master Blenders 1753 NV	Merrild	0.10
DE Master Blenders 1753 NV	Café Damasco	0.10
DE Master Blenders 1753 NV	Marcilla	0.10
DE Master Blenders 1753 NV	Caboclo	0.10
DE Master Blenders 1753 NV	Friele Frokost	0.10
DE Master Blenders 1753 NV	Moka	0.10
DE Master Blenders 1753 NV	Kanis & Gunnink	0.10

Source: Euromonitor International (2015). Hot drinks brand shares by global brand name.

Appendix 2: Simplified list of activities in the coffee supply chain

In coffee commodity chains roasters control those activities that add the most value in the chain

Activity	State of the product	Actor
Nursery	Seeds	Coffee grower
Planting	Seeds in the orchard	Coffee grower
Seeding maintenance	Adult coffee trees	Coffee grower
Weeding, fertilizing	Coffee cherries on the tree	Coffee grower
Harvest	Harvested coffee cherries	Coffee grower
Transportation	Coffee cherries	Transport company
Drying	Dry cherries	Mill/ exporter
Storing	Dry cherries	Mill/ exporter
Transportation	Dry cherries	Mill/ exporter
Hulling	Bulk green coffee	Mill/ exporter
Cleaning, sorting, bagging	Bagged and graded green coffee	Mill/ exporter
Transport to the harbor	Bagged green coffee	Transport company
Shipping	Bagged green coffee	Transport company
Transportation	Bagged green coffee	Transport company
Unshipping	Bagged green coffee	Transport company
Storage	Bagged green coffee	Roaster
Blending	Bagged green coffee	Roaster
Roasting	Roasted beans	Roaster
Grinding, packaging	Grinded and roasted coffee	Roaster
Transportation	Grinded and roasted coffee	Transport company
Storage	Grinded and roasted coffee	Retailer
Marketing	Grinded and roasted coffee	Roaster/ retailer
Brewing	Coffee ready to drink	End-consumer

Source: Simplified from Daviron & Ponte (2005) The Coffee Paradox, p.54.

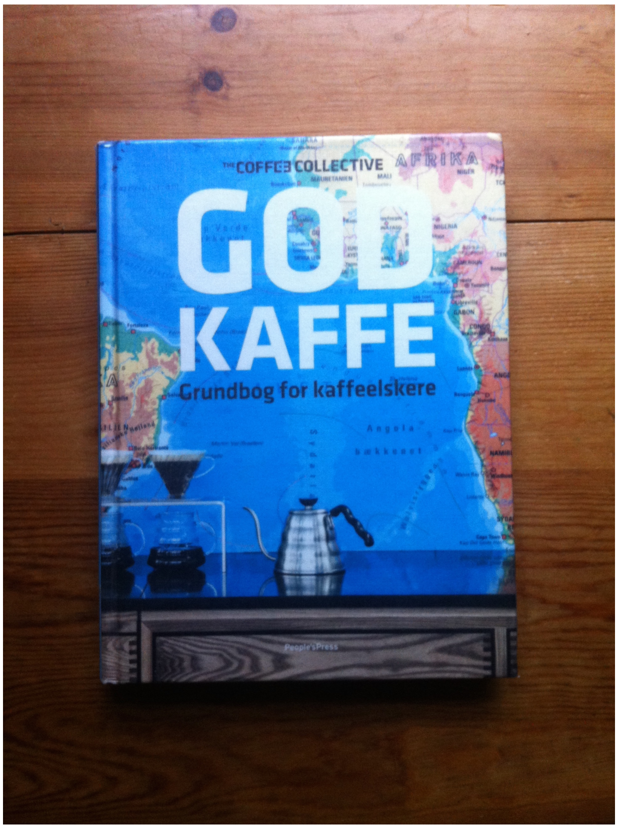
Appendix 3: Front and back of a coffee bag sold by The Coffee Collective

Example of a single origin coffee with information on the producer, roasting and taste profile

Source: Own picture.

Appendix 4: "God kaffe" book published by The Coffee Collective

Example of roasters' ambition to educate consumers in coffee trade and taste



Source: Own picture.

Appendix 5: Single origin coffee produced and sold by Coop Denmark A/S

Example for big retail entering the direct trade segment

Source: Own picture.

Appendix 6: Interview with Kurt Dalsgaard, Managing Director of KONTRA Coffee A/S

Interview partner	Kurt Dalsgaard, Managing Director of KONTRA Coffee A/S
Date	16-01-2015
Duration	65 minutes
Place	KONTRA A/S, Dag Hammerskjölds alle 36, 2100 København Ø

SS: You said you have a number of different ways of trading. Why is that? And what are the different ways?

KD: It actually comes back to the facts that when we started, the most important thing for us was to get the best coffee. And in order to get the best coffee we believed that there are some people that are better at this than us. And these are people that travel around the world the whole year finding good coffees. Back 10 years ago, there were some really good green beans wholesale traders in Europe and we started up working them. And that meant that we could just sit in Denmark getting what we considered to be the best coffees from around the world. And, in my opinion, that was a good way to learn and to know a lot of different coffees from the different origins. So from the very beginning we used a company from the UK called Makanta, we used American traders and one from Hamburg. From my former company - I have a roastery also from before we started this one...

SS: Amokka?

DK: Amokka, yes. And back then I know a roaster in Italy and we were also trading coffee through him. So in the very beginning it was just getting in samples from these companies and we would decide, ok we will have this one and this one. Then we started in speciality coffee and we got a new partner, in 2011, that was a big roaster here in Denmark called BKI. And the whole idea in working with them is that they trade coffee all other the world. So they were very good for us if we got to know a coffee somewhere we could just say, help us get that coffee in Columbia and bring it to Denmark. So when we started working with them, we started actually for the first time, trading coffee more directly. And that was three years ago and we started up with a single origin Horizontas in Columbia and Chikmagalur in India.

SS: So, did you need the bigger roaster to get access to those coffees?

DK: No, yes. This was still not what I would consider direct trade. Honestly, I am still confused what really is "direct trade".

SS: But everyone is! As the term is not defined yet...

DK: Yes! So for me direct trade is still something that is a bit blurry, what is it actually. Because, even though, and I consider this to be direct trade, I know the farmer at Horizontas, I know the Andrade family at South West - there is still an exporter that is actually also part of the supply chain. For instance in Columbia we got to know Horizontas through an exporter in Pereira in this region of Marsella in Columbia. Still, I consider it to be direct trade, as we buy a full container of coffee, high quality Columbian coffee from exactly this place. But still there are several links in between us and the farmer.

SS: So the role of the exporter is to establish the connection and then they probably charge you a commission...?

DK: Yes. Actually I think is that what I found out over the later years is that this is also very much about insurance. Worst case could be that, you know that here I am talking about quiet big volumes of coffee, that we buy for instance from Horizontas. We buy 20 tons of coffee. And that is a considerably large amount of money that we have to send. And, if you don't have an exporter and you are trading directly with the farmer ad you have issues in terms of what happens if the quality is not what it should be. For instance when the coffee arrives in Denmark - if you are working with an exporter - the worst case could be that you find out this is not what we ordered, you have a container standing outside your roastery, and normally the exporter is then responsible for getting that container to somewhere else. For example, it could be sold to another roastery. I simply think that for many farms, they are not ready to work as traders. Because there is a big risk and there is some knowledge that you need to have in order to trade coffee in larger volume. So in my opinion, even though we call it direct trade, in order to be able to sleep well at night everyone needs the exporter. There is the coffee farmer, he needs to concentrate on making some very good coffee. There is the exporter, first of all he is very good at making sure that we get the quality we need and if something goes wrong there is a way out. And then of course there is a transport company, who is also involved in the process and there is some insurance company also. So even though we call it direct trade there are 2 to 3 middlemen involved to make sure that everything goes well. And to me that is important. I think, everybody is worth having, because that makes the trade easier. So that was the first time we started with what I would consider direct trade and that was also direct trade in large volumes. Because when I look at some of our colleagues, who are doing direct trade, they are buying much smaller volumes.

SS: So they are probably travelling there...

DK: They travel there and you know when I look at how they actually find the coffee. They normally get to know some people by coincidence and then they start buying coffee there. And for me, ok, of course, that is nice and sometimes it is a very good idea. But for us it is also important that we over the years we got to know many different farms and we know the coffee from Brazil from that region and the coffee from Columbia from this region is where we should go.

SS: Are you the biggest independent roaster in Copenhagen?

DK: I am not sure. But I think we are. We roast - not all considered to be speciality coffee - but we roast around 200 tons per year. So we are one of the bigger ones.

SS: Ok.

DK: Another way and that is quiet new, is another way of trading coffee more direct, that is a lot smaller volumes, what we call micro lot. Small lots of coffee between 30 and 50 bags and that is only maybe 2,3 or maybe 5 tons of coffee. That is our new way of finding interesting coffees. For instance, last year, I went to Columbia to two different places. And I visited a co-op. And when I visited these co-ops they presented 15 different micro lots for me. And we bought one of these in one place and then we went to other one and we also bought a small amount of coffee. That is our way of ....

SS: Testing new variations?

DK: No, not really. For us, it is more a quiet new way of working with some very, very small farmers who are only producing a very, very small amount of coffee. And, in order to get out to them, we need to meet them in a larger organization. Usually they are organized in a co-op, where they bring all the coffee to the co-op and then the co-op is working on selling their products. This kind of trade is becoming more interesting when it comes to really, really high quality and very well selected coffees.

SS: So your motivation in meeting more directly with a farmer or a co-op is quality?

DK: Yes.

SS: It is not ethics or other reasons?

DK: With quality comes ethics. Because we can see on the price level of these very good coffees, they are certainly more expensive to produce and we have also the experience that over the last 5 to 6 years, the quality of these micro lots has really improved. So they are nowadays of very good quality.

SS: Why is that? Is it because now they can find someone that pays the price, or...

DK: Yes. The reason for the improvement in the quality is that there is a market for well-processed coffee. And, also... I think I have to start another way. When we talk these high-quality micro lost, you have to know, how coffee normally has been processed. Coffee is the second biggest traded commodity in the world. When they process coffee in many regions around the world, they produce it in very high volumes. It is funny, because you think in one end you pick a cherry on a tree and it ends up in a big container mixed up with many, many other coffees. That is how coffee normally has been traded. And Gonzales who started out here picking his very well selected coffees, when it came to the co-ops, it was mixed with many other coffees, and that is how it normally has been traded.

SS: And the exceptional quality got lost in the volume?

DK: Yes, it got lost in 100 different farmers' coffees. So these micro lots, they are very closely separated through the process from the picking to the point when it is going to be sold. And that is a lot more expensive, but it also a very, very much better quality when it comes to cup profile. What has changed over the years is that we now see a small market of different independent small roasteries, who are looking for this. Because they can sell it. We are talking about these small farmers who are just producing maybe 1 or 3 tons of coffee. They can process a coffee very, very good, because mother, father and two kids they are the only ones who pick this coffee and they pick it very, very gentle and they process the coffee very, very good. And that just makes it a better product, compared to a farmer who knows that, when I sell the coffee no one really cares that I picked it. But our farmer knows, ok somebody out there is going to buy *my* coffee. And that makes the whole difference. Those coffees are much, much, much more expensive. We are talking 3times, 4times, 5times the more standardized prices. At least I saw in Columbia last Spring that even without taking the exact into consideration, the price was double for micro lot. So for a small farmer this really makes a difference. If he can sell his coffee as a micro lot he can double the income. And that is where the ethics comes in, because it will change his way of living. You can see small farmers in Columbia and some of them, they have found out, ok, this is how the new coffee business works. And they improve the processes on the farm, they improved the quality of the coffee and they just start making more money. So they can put the kids to school, they bought a car and put a new roof on their house, and some of the others they just do it the way they have always been doing it and they are not able to increase their income. So quality coffee is going to drive a better living standard for these people.

SS: And where does the inspiration come from for those farmers that see this trend? Is it a roaster that comes to them and tells them?

KD: No, it is the co-ops. It started 10 years ago, maybe 15 years ago. Some of the managers of the co-ops started to participate in trade shows around the world. And I remember meeting some Nicaraguan men from Guape in the middle of nowhere and suddenly he was participating in a trade show. And over the years we met some people there. And at the co-ops they have started to improve, they have started to pick out some farmers and said, we will do a program with you and we will teach you how to process the coffee how to pick the coffee the right way and we will keep your coffee separated from everything else. And then along with that we see from the other end of the market that there is a small group of roasteries from around the world and they start to be interested in this. And little by little the number of micro lots increased - and the number of roasteries interested. But, sometimes, and I think that is the situation right now, there is much more micro lots produced than is sold. So a lot of those micro lots are also being sold as just regular coffee sometimes. Because sometimes they find out that there is no one that wants to buy it. So it is very important right now that this balance can be kept and that the demand for higher quality coffee is going up. Otherwise they will just, you know, if you tried a couple of times making the best coffee you could and you end up selling it as a standardized product, then you would probably give up.

SS: So do you sometimes as a roaster guarantee to a specific co-op or a farmer, if you produce this kind of coffee next year, we will buy it?

KD: In the agreements that I have been talking about so far, we have some farmers that we work with year by year. And they know what we are asking for and they know that they get a good price. It is not that we have said that we will give you this much, it is informal. Sometimes when the market is very high, then of course he [the farmer] also wants to have the high price. If the market is low, of course we say we cannot offer you a very high price if the market is so low. It is something that we negotiate all the time. We have one project, that we are involved in, in Sumatra. We are working with a project called Orang-utan coffee. We have been quiet involved in this with a Hamburg roaster in Speicherstadt, you might now it...

SS: Yes, I do! What was the name again...

KD: They have a really big roastery directly in Speicherstadt...

SS: Yes, and the café is right next to the roastery and you can see the process...

KD: Yes, exactly. We work very closely with Timo [Timo Drews, owner of Speicherstadt Kaffeerösterei], who owns that company. Together with these guys we are involved in this project in Sumatra, where we are buying good quality coffee and, we promise 1/2 € to the farmer on top of the normal price for making a high quality product and not increasing the size of their farm, which means that they do not remove any more rainforest, so they can get a good income from the lots and the size of the farm, and they are not urged to increase the size of their farm. And another 1/2 € goes to a conservational program for the threatened Orang-utan in Sumatra. There is a nursery for injured Orang-utans driven by a Swiss women and we also pay 1/2 € for that.

SS: But that is a very specific project. It is not like you have this standard for everyone?

KD: No, and that is what I started to say. We have many different ways of working with farmers.

SS: So when you sell that Orang-utan coffee here in the shop do you tell that story on the product?

KD: Yes, we do. Actually we have one very large client involved in this. We developed this project together with one of our clients, called Bella Center. They have a big hotel called Bella Sky, the Bella Center, Round Plaza. They have this coffee. And it is called Orang-utan coffee and when you go there you can see that the Orang-utan brand is everywhere. On the machines, on the coffee, on the walls, everywhere out there. We do that with them.

SS: So they use it as a marketing strategy as well.

KD: Yes.

SS: I read that you are working with a farm in Brazil called Daterra. When I researched them I found out that they are actually very big.

KD: Everything in Brazil is very big.

SS: Yes, I was surprised, because I have this image in my head of a small-scale farmer, but then I looked at their web page and the first thing that pops up is their sustainability commitment and a list of certificates they hold. Very professional. So my question is, do you think that the relationship to roasters is changing because coffee co-ops or growers are getting larger and more professional? And also, do the roasters choose which farmers to work with or is it the other way around?

KD: One thing that you need to understand is that there is a big difference between country to country. And Brazil is something on its own. If you take a coffee farmers in Columbia and a coffee farmer in Brazil - it is not the same thing. The average size of a coffee farm in Columbia is 1.5 hectare. Is means that an average coffee producer in Columbia produces less coffee than what a big coffee buyer in Copenhagen uses in one year. An average coffee farm in Brazil is probably around 3 to 5 hundred hectare. They are huge. They harvest the coffee with big harvest machines. That is something you do not see outside Brazil. In Brazil, are coffee farmers are independent farmers, who are able to, actually they could participate themselves in a trade show in Europe. They have a marketing department, like Daterra. They were the first ones to be selling coffee - Daterra coffee - in coffee machine trade shows in Europe. They have been building up a coffee brand over the last 15 years. In all other countries, the small farmers, forget about them. They don't know where Europe is. So they are organized in co-ops. And co-ops are developing into organizations that do help the farmers to improve the technical and agricultural process and all that. They do programs for children and the local community. They provide finances. If you go to one of these co-ops you will always see that there is a department where the farmer can go and say, I need some equipment but I don't have any more money, but I will promise that you will have this amount of my coffee. And then the co-op gets the equipment for him and takes coffee instead of money. So these co-ops are very integrated and social constructions that are very important for the community and they are also the representatives of the region's coffee outside. So they go to the trade shows in Europe or take contact to a coffee trader or a coffee roaster and sometimes a co-op in Columbia could be 5000 small farmers. So it is two different things.

And back to your question. Are we going to the farmers or are the farmers coming to us. In the case of Daterra, they have so much money. The guy who owns Daterra, he is just running those three coffee farms as hobby. He has made all his money from selling tires for cars ad all that. He has a big chain of that in Brazil. So, making coffee is just a hobby for him. But he bought this farm 15 years ago, maybe 20. Yes, I remember him in the 90s, he said, I want to, in a very professional way and with the use of high technology, I want to make the best Brazilian coffee. And he invested millions and millions of Real in making very high quality Brazilian coffee. But this has nothing to do with small farmers. This is a huge industry.

SS: I also read that they developed a software to see what the different aromas are in a bean. Is that something you value?

KD: I think that in general, the best quality from Daterra is for sure good. But normally Brazilian coffee is not considered to be in the high-end of coffee. The favour of the coffee is not considered to be the best. What they have tried to do, they have tried to select the coffees better and they improve the processing and the life circle of the trees and there is a lot of things. And they have done a great job at doing that. We see some very good coffees in my opinion, but you need to know that the flavour profile of a Brazilian coffee is totally different from a Columbian coffee. So you can not say that Brazilian coffee is better or worse, because the flavour profile is totally different.

SS: And how do you measure or define quality when you select a coffee? When you go to a cupping or trade show. How do you find what you are looking for? Because it is difficult to find out, because you cannot see inside the bean, is that correct?

KD: You can look at the beans and see if it is a very well processed coffee. And then you taste it and of course if you find it has some special characteristics. Some coffees they have some very special characteristics where you say, oh this is interesting, this is a thing that you normally do not see in a coffee from this region. That could be one thing, saying, oh this could be interesting. Or, if we are looking for a pulp natural Brazilian coffee. We have an idea of what is the normal taste of this. And if we just get a very clean one. Maybe it is not very distinct, but it is a very clean flavour, that is something that we are looking for. So we look at the bean, we taste it, we have ideas of how the coffee should be from that area.

SS: But there has to be some kind of information flow, right? Because if you would just see a bean, could you tell where it was grown?

KD: Even if I didn't have the information, I could taste the coffee and I would know, oh this is very good and normally you can also locate the coffee just by tasting it.

SS: Another thing I noticed about Daterra is that they have a lot of certifications. Rainforest alliance, organic and so on. Do you think that is important?

KD: For some roasteries yes.

SS: But you do not have it on your coffee.

KD: No. Because for us, we judge the coffee from out own point of view and we pay the price for it. And you know people buy coffee from us, they have to believe that we are the ones, who are able to judge if this is a good coffee, we pay a decent price for the coffee. We do not need other labels for that, to tell that this is a good coffee.

SS: So there is a lot of trust involved then? First in the relationship to the farmer, but also with the consumer.

KD: Yes. For me, we decided years ago that we will not put on Fairtrade or Rainforest alliance. Because if you just put that on one of them. Then you start to say something about the other coffees too. And people will ask, oh, there is nothing on this one, is that bad? And that is a discussion that we do not want to get into.

SS: On you Facebook page I read that at Horizontas in Columbia the farmer uses aloe vera to fertilize the coffee. Would you use that information and take it to another farmer? How is the information flow?

KD: This is quiet new to us. This is the first time we saw this last year. Of course it is very interesting. A part of the farm is being used to be transferred to becoming organic, and they use chilli to avoid different small animals on the coffee trees, like a repellent. This is information that is of course very interesting and you put it on Facebook and someone like you reads it and we are happy that you saw it. But it is not something that people react heavily on. Because although we drink an awful lot of coffee, many people they don't know much about the coffee tree looks like or how is the life in a coffee country. Many people still think that Columbia is a dangerous place.

SS: So if you would go to another farm in Columbia and you would see the same problem. Would you share the knowledge or give tips?

KD: I am quiet humble when it comes to tell coffee farmers what to do or give them advice. I think we come from part of the supply chain, where we know how to sell their coffee, we don't know much about growing coffee. They actually know very well what to do. And sometimes I see some 25-year old barista going to South America to tell the coffee farmers how to grow coffee. In my opinion they know better themselves. One thing is that they have been growing coffee for generations and maybe they are not very professional and they do not register anything, but they know from their father and their father that ok, if we have this weather conditions we should do this. So they know pretty well how to grow their coffee. But of course, locally, I can see that especially the co-ops, they have been able to educate the farmers and to get some better coffee produced.

I have a good example. There was a Dane, who moved to Mexico 10 years ago and he bought a coffee farm. And he went all over the world and talked to professors and so on and now he wanted to make the best coffee in Mexico. And he said to me last year, I just have to admit, I have invested heavily and I have all the resources needed to make the best coffee, but sometimes I really feel that I still have to go through every single phase in order to know what to do. Because theoretically we should do this, but then I am on the other side of the hill so the sun does not do what it should be. And there is a lot of such things. And he said, I just have to admit that in some ways we just need how is it to grow coffee on exactly *this* spot. It is not something that can you can read in a book. You need to have a certain feeling. There are many things that I don't think we are or, I am not the right person to tell anybody how to grow coffee. The farmers know how that should be done.

SS: Another thing related to that, do you think there is going to be a threat originating from climate change?

KD: Yes.

SS: Is it going to get harder to find good coffees?

KD: The situation right now and what we have been seeing over the last 10 years is this. I can give you an example: Normally, in this part of Mexico where this Dane is having his farm, that is about 1100 m above sea level and they now have some difficulties with some diseases on the plants that they didn't have before. And in order to avoid these diseases they have to move further up so now they say that instead of growing coffee in Mexico between 1000 and 1200 m, now you have to buy a coffee farm that is in 1200 to 1400 m to actually grow coffee and don't have problems with diseases. And so what we see is that, we have different situations in different countries, but in general you need to go further up the hill to grow good coffee.

SS: How do you think the relationship and trade are going to change further? Is the trade going to become more direct? Is the number of micro roasteries increasing?

KD: Well, I have been in this business for 20 years almost. And I think it is moving, it is moving slowly. And you have to consider that when you have a coffee generation - that when you learn to drink a certain type of coffee and you got used to that - then it is very difficult to change that habit. If we have, for instance now we have people drinking espresso based café latte, then it is going to take a long time before some new people are coming in and learn to drink coffee in another way. So things change a lot slower than what we thought it would. I think, yes of course the market moves, but when it comes to quality coffee I consider year 200 to be year 0. Because up until year 2000 coffee was something that had been produced the same way for 100 of years but we were just beginning to tell stories about it, but they still did the same they always did. Then the last 15 years, they started to improve things and make experiments and what we see now is that we sometimes see coffee produced in Brazil that tastes like something that is produced in Ethiopia. They produce something in Nicaragua that tastes like it is produced in Kenya. Se the variety of flavours and tastes from different origins is going to be a lot more complex over the next 10 years. If the market will grow? Yes I see many young people, who like coffee. They are more interested in tasting coffee with different flavours. My parents, for them coffee was just coffee. So if we believe that this trend is going to evolve, I believe that we will see a lot more complex market of coffee in the future. Maybe a bit like the wine market. But coffee is still just coffee, it will never be wine. But maybe some of the things, we will see. For instance, I hope that this year we will be able to start having on a regular basis public cupping, where people come and taste the new coffees that we have. But I have actually been doing that for 20 years. We have been in the process for many, many years. What we could see in the future, that we present a new harvest season from Columbia, here we have 15 different coffees, taste them, which one do you like. Today consumers cannot taste the difference between different Columbians.

SS: They need to be educated.

KD: They need to be educated more.

SS: And which segment do you think is going to grow most? The individuals that buy coffee for their home or the cafés?

KD: It depends if you are thinking about volume or... We sell some coffee up here [in the shop to individuals] where we maybe sell 200kg in a week. And that is still a very good volume for this high-end speciality coffee. But this is growing steadily and slowly. But that is only 10% of our business. 90% of our business is selling coffee for professional uses; hotels, restaurants, and companies. And that is growing a lot more. Maybe it is not a very special micro lot from Columbia that we are going to sell to that company, but still they ask for a better quality than what they used to have and that is growing a lot.

SS: Yes, that's funny, I was at Ipsen & Co. café today and saw that you roast their coffee too. Ok, last question, who else could be of interest to interview in Copenhagen?

KD: You should try and talk to some other roasters. The ones who have branded themselves on direct trade is Coffee Collective. They are the ones who invented and defined for themselves, well, they were the first ones to say, we are doing direct trade. So they are the right ones to talk to. Have you been in contact with someone?

SS: Yes, Peter Dupont.

KD: Yes, he is the one doing the roasting, that's good.

SS: And then I contacted ESTATE Coffee but did not get any reply.

KD: You should contact Soeren Sylvest [shares Soeren's email address]. He is the manager of the company.

SS: Perfect! Thank you!

SS: Are you working together with the other roasters in Copenhagen? Do you inspire each other?

KD: One of the partners of this company, BKI, is the biggest producer of coffee in Denmark. And they have really been inspired on how to work with coffee from us. They have travelled in coffee countries for many years but did not pick up any stories or got to know any coffee farmers. They were just out there having meeting and then they went home. So the way of working is changing.

SS: Do you think the traditional trade is also going to change? Is there a threat from supermarkets putting speciality coffee in supermarkets?

KD: Yes, yes. They have the logistics, they have the marketing money. They can send a full team of communication people to Columbia and they can shoot a video and make good stories. And they have been watching what we have been doing and they are going to do the same. They will do it more professionally and with more money to invest into it. So yes, we are going to see more of that. But then people like us we need to move one step ahead and need to be even better to add some new things to the coffee trade.

SS: May I ask, what is your personal motivation to found this company and working in coffee?

KD: When I moved to Copenhagen I was 23 and I was going to study Geology at university and I started working at a coffee bar. And when I was working there we went to see a roastery. And then I went after my Bachelor, I went to South America to travel and looked at coffee farms, that was in the 90s. And then I got to know a lot of people down there. And then when I came back I thought we should make a small roastery and a coffee bar. And we did. So, personally, it is just very interesting that you have this agricultural product on one end and then a fancy coffee bar on the other end. It is an interesting thing. And wherever I go in the world, I know people that I have met. If I go to Madrid, Rome or Hamburg or Berlin, there is always a coffee bar or a coffee roaster.

SS: And the roasters in Copenhagen are also connected, right?

KD: Yes, some more than others. There is a steady group of professional companies that keeps being in business. And then there is a number of small ones popping up and then they go out of business again. There are also in this type of business many dreamers. That is good for the development and the innovation of the business but sometimes I think people are a little bit unrealistic about it. It is not just enough to buy a roaster and some coffee and then you start making coffee. There is a lot of other things that you need to know.

SS: Is there a lot of knowledge that you cannot write down but that is intuition?

KD: I think there is. Let's say I was the best one to taste coffee. Then I said I am very good at tasting coffee I will start working with it. I have actually been tasting coffee for 20 years, but I am not a very good taster. But I can see on a sample of coffee where it is from, who produced it and who is the exporter. Working with coffee is something that you get experience over the years, and that is something that you cannot just write down and read to get a feeling of. I feel there is an increased knowledge just from experience.

Appendix 7: Interview with Peter N. Dupont, Co-founder, managing director and green bean buyer at The Coffee Collective A/S

Interview partner	Peter N. Dupont, Co-founder, managing director and green bean buyer at The Coffee Collective A/S
Date	21-01-2015
Duration	46 minutes
Place	Coffee Collective Café and Roastery, Godthåbsvej 34B, 2000 Frederiksberg

SS: I am writing my thesis on direct trade and I want to find out how the relationship between roasters and farmers has changed with the introduction of direct trade. As this is something new that has emerged and is changing the way coffee is traded around the world. And I want to find out: why is it different now and how is the relationship changing. So my first question would be, how do you source coffee? Is all trade direct?

PD: Well that depends on which definition you are using of direct trade.

SS: That's another question here. What is your definition of direct trade?

PD: For us, it started with some ideas of how we wanted to trade. And we heard of Intelligentsia coffee in the US, they started in 1997. And they used the term direct trade for a trade model that was very similar to the ideas we had. And we thought it was good to have kind of this brand to sum the model up.

SS: So they developed the brand direct trade?

PD: Yes, they developed the brand. And we knew some of the people behind this as Intelligentsia and we asked how they would feel if we started using that brand as well. And they said that they would be happy if we were to use it and if we were also going to protect the integrity of the brand. We thought about how we can protect the brand and back then even thought his term has only been used in the States different roasters had picked it up and used it in different ways. And it already created some confusion amongst the consumers about, what is direct trade. And we thought, we want to avoid that in Denmark and therefore we registered direct trade as a trademark in Denmark. Of course that was only possible because direct trade is a foreign word. But it was possible, so we have the trademark in the area of coffee. And by this we can now tell other companies that are not following the same rules as us, that they should stop using the term. And so we also defined what is the most important things for us in direct trade. And for us that is that it has some documentation. Because a lot of roasters are using the term direct trade to describe different models of the same thing. We think that it is stronger if we have concrete promises in the model and therefore we have two promises that are always part of when we do direct trade. And that is for one thing that we pay at least 25% above the Fair trade price and for the other thing that we visit the farmer ever year. And these two things can be documented. First, we think that the core part of why direct trade makes sense it to create a better income for the farmer. And we think that Fair trade is kind of a minimum wage system. But if you have to do better quality is takes more work and you should also get a higher price and therefore we started with 25% above the Fair trade price. For a lot of our coffees we have paid 50-100% above the Fair trade price. That is the price part.

The other part is visiting the farmer every year. The idea behind that is that we wanted part of our trade model to be that we had a relationship with the producer. But we also knew already then that relationships are a lot of different things and people can have a relationship on very different backgrounds. And we wanted to quantify a relationship. That is kind of impossible in a way but at least we are saying that if we are not going to visit the farmer once in a while that is a pretty strange relationship we are having. I mean, it is a pre-requisite for a personal relationship that you meet the people once in a while. So we thought, lets take something we can document and that is that we are visiting the farmers. We use this to document that we have a relationship. Although, theoretically, you could say that you could go there every year without building up any kind of relationship but it was to make two very concrete promises that can be proven wrong, because we felt that that was very important to be trustworthy, because a lot of roasters that are not doing direct trade in our sense if you go to their website or look at their marketing material, they say that they travel the world to find the best coffees. So they create the same illusion, but there is nothing to prove them wrong, because all of it is hallow words and terms. We want to have direct trade to work opposite to that. As something that has a clear promise.

SS: When you say you go and visit the farms, what is the main purpose of going? Is it to set the standards, is it to meet the people, maybe share knowledge between different farmers? What is the main purpose behind it? What have you experienced, what happens when you are there?

PD: I think there is a lot of different reasons, I would say. One main purpose is to talk about the quality. What is the quality that we value and that we can pay a better price for. It is important because if you talk to the main coffee roasters they will also say that they have quality coffee and then maybe they have some standards like physical defects or no stones or rocks or anything in it, or they will say they have Arabica beans and that is better quality than Robusta coffee. But the way we work with quality is more complex than these physical, quantitative measures. It is also more difficult to exchange the understanding of what is quality with the producers. And therefore we think it is important that we go there, every year, and meet them at the point they are. And then we try to develop quality. I think one of your questions was also regarding the difference between our producers. They are very different. If we go to Daterra we will talk a lot about the cup quality and about organic certifications and so on. And they have a very well developed quality lab, where you can go in and have sample roasting and so on...

SS: Yes, I saw on their web page...

PD: They are a huge coffee quality factory in a way. You asked about Columbia, but I think its more interesting to talk about Kenya right now. In Kenya we are working with this co-operative that has the same mill, privately owned. A wet mill where they are around 200 members, called Kieni. When we go there, the producers in Kenya generally do not drink coffee, they drink tea.

SS: So they don't know really what they are producing?

PD: No, not at all. So when we go there, we are talking about the qualities that we need and we try to get them in with us to do cupping and taste the coffees so we can talk about what we taste and what they taste. And what we like and what we don't like and so on. And we try to get their understanding of if it is a good flavor, how come it is there and if it a bad flavor, how come it is there and how can they relate it to what they have been doing and so on. And it is, I mean Kenya is some of the best coffees in the world and personally I think the producers we work with in Kenya are producing a fantastic coffee. But that is more because they are doing it the way they are doing it, but we want to put them in a position where they know if we do this it will put that flavor in the cup, or if we do this, it will put the other flavor in the cup or something. So we try to meet to taste coffee and have some understanding of our producers on where does this taste come from in the production and they come with specifics on the production and we can try to figure out what is it we want and how can we make it better. That is the main purpose of going there. It is to talk about the quality.

SS: But you would still they that your producers are the experts in growing coffee and producing it. And you are the experts in roasting it and seeing the different nuances in taste...

DP: I mean we have some theoretical idea and each year you go there you learn more, but we still put a lot of effort in respecting that they have the whole picture of understanding of the practical production. Maybe they do not have all the theoretical knowledge and there is a lot to learn, but they have a lot of practical expertise that we don't have. And we try to always work gently on that. Out normal approach to when we start a new relationship is: The first year we go there because we have tasted some coffee that was good, so we meet the producer and we talk about the quality that we want to buy and so on and we find an agreement. We talk about the price and are in direct contact and that is how we show them that we are serious about doing business with them. That is also a dangerous thing that can happen to small farmers - a dangerous thing in the movement that we are having right now that more roasters are going to the origin, is that roasters are also going around and throwing good advice at every producer on what they should do and then they are just taking off to the next farm and never coming back to buy. And the producer might change his way of producing, take out his trees and plant Geisha trees instead, because some roaster thinks this is fantastic. But the producer might not know that Geisha trees actually need 5 to 6 years before it starts producing, where a Katura plant takes only 4 years. Then he finds out that Geisha only produces half of Katura, and he only has half the harvest. And the roaster that gave him that advice, will not come back anyway.

Every producer I have met are dreaming of having a direct trade relationship with a roaster. So they are very open to hear what the roasters wish and they are open to change things, but I think we as roasters should be very careful of not giving false hopes and good advice about things we don't really know everything about. So therefore we always meet the first time to do business, because we found out that they have a good quality and we pay a good price. That's it and we come back next year.

SS: Do you give some kind of guarantee that next year you will buy a certain amount of beans?

PD: No, no, it is not a guarantee to buy. Normally we guarantee that we come back next year to taste the coffee. If we like it then we will buy it again. But we rather built a relationship on trust, than on promises. So we have an understanding that what we buy are high quality products and then we pay a good price. And by showing them that we come back every year we build a trust. I think that is at least as good as writing a document that for the next years we will be buying x kilos at x amount, which might give - not to sound too negative - but it might give a sleeping pillow to the producer that we will be coming back anyway paying this price. We rather built a trust that we are there and we will come back every year as long as we can do a good business and you can do a good quality. And we pay a higher price and buy more, the better the quality. So we will wait until the third year to start coming with advice on how they could maybe change things or improve things. So at that time they know that we have built up a trust and they know what we are about. And they can themself judge how much they want t put in to the advice from us, if they want to invest in it or not.

SS: And right now you have 6 suppliers. Do you plan on having more? Does it get too complicated if you have too many relationships?

PD: Yes, of course. It is a balance. In the beginning we had the dream to buy all of our coffee directly. Sometimes it is possible and sometimes we are just taking a few bags from someone to do some stuff. But we want to have everything as direct as possible. But then we also want to have a certain volume from our producers. Because just buying five bags here and 2 bags there. I think if it is not extremely small producers then it is a waste of their time to come down for a week because they are always very hospitable and use a lot of time when you come along. So we want to built some volume and this is why we don't expand too much. On the other hand, for the coffees that we offer, we want to have coffees that taste distinctively different and are above a certain quality level. We have criteria that are more simple like, cleanness and sweetness, and those can be directly related to how the coffee has been prepared and harvested. So for cleanness and sweetness we have quiet a high standard. But on top of this, we want to have coffees that taste very different. We do not want to have coffees from all over the world if they all taste similar. So these are the limiting factors for how many producers we want to have. Last year we were pretty well off in terms of quality. This year, some things have changed. One is that we unfortunately lost the relation we had in Ethiopia. Se we really miss that flavor profile now and of course the producer. The other thing is that in the fall we cupped some coffees that were completely new flavors to us, from El Salvador. So I will try to go there in March and taste the new harvest to see if it is as special. And if it is we would like to start up a relationship there.

And then we are trying to figure out how we can get something from Ethiopia again.

SS: What happened in Ethiopia?

PD: It is difficult to say exactly. The harvest is around December/ January in Ethiopia. We worked with a co-operative called Youcro, We made contracts with exporting companies in Ethiopia that they should send it out in March, that is the normal time for other countries that 1 or 2 month after the harvest it is shipped out. If the coffee lies longer in a hot country, then the quality goes down. And when it was July it still had not been shipped out, even though we have been fighting all the time. We got a lot of excuses and explanations and so on. But in the end, in the beginning of July we had to cancel the shipping. We also got samples and we could taste how the quality faded, so we cancelled that. And that is a really unfortunate thing, because it is not the producer's fault. But Ethiopia is extremely complicated country to do business in. Because the producer they are tied up to using certain exporters. They cannot ship through anyone else. And these private exporters, some of them who we are working with, they just did not deliver their job. And of course, the losers in the long run are the producers, because they cannot do business if the middleman is tied up by Ethiopian law and is not able to get the coffee out. So that is just so frustrating, because the flavor of Ethiopian coffee is fantastic. So that is a huge shame.

SS: You also had issues with the exporters in Kenya, right? So wouldn't it be better to cut out the exporter? Or does that not work?

PD: That is not possible due to local laws in the producing country. And the producers themselves do not have the resources to do the administrative work of handling the export process. And also they need an export mill to do the last steps to the final product. So cutting out the exporter is not possible. I don't know what you have been reading about Kenya.

SS: I read the last blog post about Kenya.

PD: What happened in Kenya is that... I think it actually started back in 2010, where on a national level the law was changed, so there was a lot of de-centralization that was part of that. And I am sure that that law has been very much advised by foreigners, because de-centralization is a huge interest from the global political society to get better governance in a lot of developing economies. So they did this de-centralization of power. The goal is to fight corruption with more local integration of the political system. And maybe there will be less corruption because more transparency is possible, not necessary there, but possible. This meant that the governor of the region we work in, Kieni, he decided last year that the marketing agents that were working in that region were not allowed to work there anymore. Ann coffees should first be send to a co-operatively owned marketing agent and exporting company. There were a lot of rumors around on how this would happen. When we first heard that all the coffee from this region would be bulked together and it would not be possible to trade directly anymore, the first thing we did was to contact the Danish embassy in Nairobi to meet with this governor and to find out what was going on.

There is a lot of money in coffee, so it is very political. On the global scale as well, it is extremely political. It is often underestimated how political it is, also on a global scale.

So we asked the embassy to meet the governor and they did and they came back to us and said, it is a legitimate system, you can try to work with them. The governor has promised that it is not an attempt to nationalize things, it is an attempt to get out those companies that were colluding and setting prices. It was not a free market and these agents were having too much power and setting the price in their own interest and to the disadvantage of the producers.

And the year before that we actually had the experience that the coffee we bought from Kenya, we could not pay them the price we wanted. The marketing agent asked us not to do it, because that would destroy the credibility of the marketing agents' prices. So instead we were buying some drying tables as a premium. But that is not what we want to do generally. We want to pay the price and let the farmers take the decision on what to invest in instead of us doing that. So from our perspective, there is some truth to what the governor claims. But of course it is a political situation. He claims one thing, the marketing agents claim another thing. And it is not really possible for us to find out what is the truth. But what we can do it to look at the business we are doing and ensure that we get transparency on every step of this. And we have been able to get transparency even in the new system. So that is why we bought the coffee last year. We did have some problems getting the coffee a bit later than we normally would have because of the change.

It was a similar thing, but still I have a lot more optimism in Kenya, than in Ethiopia. I think as it looks now, Kenya is on a good way. And that is also from a Danish perspective, we believe that co-operatives can work well. Of course there are co-operatives that are working very badly, for example the exporting co-operative in Ethiopia. But it *can* be good and it something very different from nationalized organizations. I think that some of the American roasters, they thought in the beginning that this was a nationalization of the coffee industry. But it is very different because the producers own the channels of production and export.

SS: How much value is added when the coffee is at the exporter? What is the price rise?

DP: It depends. Exporters do not just move the coffee, they add value also. They do some administrative work. You can discuss if that is value-adding. But they also clean and sort the coffee and the shell is broken of the green bean. They add value to the products. Normally, exporters we work with, they would get 0,5$ to 1$ a pound of green coffee for their work.

SS: How much percentage is that?

DP: Well, in Kenya last year we paid 4,5$ per pound and maybe 70cent of that was to the exporter and the rest to the producer.

SS: Ok, thank you. That answers my question. Do you think the relationship to the farmers is going to change? Do farms - because they are big, or because they work in co-operatives - gain more power in the relationship? Do you think there will be a situation where the co-operatives can choose which roasters they want to work with?

DP: I hope that is what is happening in Kenya, in the Kieni region right now, because they are very popular. There is a lot of interest in their coffee. Klaus, my colleague, was down there last week and if you go on Twitter you can see that there is a lot of other roasters down there right now. And we already know that we are competing for the coffee. And I hope that this new marketing system will be able to create competition in a constructive way. The old system was more looking at their own interests, so they wanted to give all of the clients a little bit of the cake to keep them happy. Whereas now I hope that there will be competition to get access to certain producers. So if we for instance are not able to meet the price of another roaster for Kieni coffee, I hope that we will get a free market working in that way. I hope that if there is a large demand than the prices will rise for the benefit of the farmer. So I hope that that is what is happening in that region in Kenya right now.

But generally speaking in the world, it is far from that. If we speak generally, 99.99% of the coffee is still traded in systems where there are Western based companies that are extracting coffee and they are the ones having the power.

SS: Another thing: With climate change it is probably going to get more difficult to source really good coffees. Do you think that because you have a close relationship to the farmers that is going to be a benefit? For example, that you will develop solutions together or have primary access to good quality coffee on the expense of bigger roasters who do not have the personal relationship?

PD: I think that we have the advantage, that when we have been buying from a producer for some years, that they prefer to sell to us over anyone else. As long as we pay a decent price. So I think we have that advantage. But I don't think that climate change is giving us that advantage.

SS: It is more an example for a threat..

PD: I think the way that I see climate change is working in coffee production, is that it is putting more pressure on the producers to choose to go fro volume or quality. And for many producers volume will be the choice. You know the coffee rust outbreak in Latin America, if that is directly related to climate change is debated, but I think so, rust is always having better conditions when it is more humid and more humidity is part of what is going on in many producing areas. So I think it is related. And this is a big challenge for our producers in Latin America. So I think most of them will go towards rust resistant varieties that are of less good flavor quality. And then a few of them - in colder climates where the rust is not able to survive - they might be able to continue producing higher quality.

SS: A more personal question in the end, what was your personal motivation to found the company?

PD: My personal motivation or the one of the owners in general? We are four owners so...

SS: If you can speak for the others too, feel free.

PD: I mean, we have of course different angles on it. But I think where we meet is the interest in this positive relation between developing flavor experiences that excite us and that we want to share with others and the possibility to give better prices to producers. When we started there was this scientist called Stefano Ponte, I don't know if you have read some of his work...

SS: He is my thesis supervisor.

PD: Oh he is, ok, perfect. He made this book - the Coffee Paradox. And that was kind of the basis for our idea, the idea that there is a paradox, which you of course know then. It is that in the same period from 2000 to 2005 you had the same prices paid to producers and then you had consumers in niche markets paying higher and higher prices.

SS: The latte revolution.

PD: Yes, you can argue a lot of it is milk. But we always think that we know how to make these coffee specialties with more or less milk. We thought that we could make coffee experiences that would make people willing to pay higher prices for coffee. And then of course it should be possible to pay better prices to the producers. So that is the personal motivation - so that on the one hand we just enjoy tasting and drinking really good coffee. That is a very personal thing, and close to our personal senses. But then combined with a longer perspective of being able to give the producers a better income. And this gives us a longer perspective than just us sitting there by ourselves and enjoying the coffee. This combination of doing something fun during the day and then a longer perspective is the common motivation for all four of us. And also we believe that by giving a higher price we get even higher quality. For instance in Kieni in Kenya, we have been going there every year, talking about taste with them and paying a higher price and now last time when we came there in November they actually asked us to make a paper about what could they the farmers do to produce better quality. And they wanted to give this to all 200 members of the co-operative. That of course shows that they are interested in doing a better quality. And then we will be even more exited about the coffee and give even better prices. So it becomes a positive spiral.

SS: Do you think the whole market is going to develop in that way? It is going to become a positive spiral? Are more and more micro roaster going to pop up?

PD: I definitely think so. More micro roasters are popping up. But you also have to see how big of a market share we actually have. We have grown from 10 years ago to now, but it is going very slowly. We are moving in the right direction, but slowly. I think the market is kind of dividing into a big group where it is just about having the cheapest possible commodity and then a speciality group where direct trade will be possible and where transparency will be possible. Because there is also often micro roasters popping up that are kind of living of the reputation of others and do something similar but in reality not doing anything different from what the big roasters are doing. But I am an optimist, and I believe it is developing in a positive direction. But I don't believe in miracles, so I don't believe that next year everything will be a lot better.

SS: One thing I forgot: certifications. You do not use certifications like Rain Forest Alliance or something like that. Do you think that the trust you have with the roasters somehow replaces that? And the trust with the consumer as well.

DP: Yes, so the trust with the producer is definitely replacing these certifications. And it is a lot better system that we go there and pay a better price. I mean it of course depends on the motivation for the certification but I would understand that it is mostly to have a guarantee for sustainability in the production. And I think that it is much better that we go there. Because when we go there we also share values, but in a soft way not in a hard way. With certification you often have to fulfill some rigid things that kind of give the promise of sustainability, but do anyone believe that we from the West can force on sustainability on people in Africa? I think that it is utopian to believe that and also a stupid thing to do.

There is a lot of things to this. To give an example of how I think that the system is to rigid, if you look at organic coffee. If you look at my fridge at home you would notice that most of the products are organic. I have a small garden and grow is 100% organically. I really believe in quality and organic production. But if you look at organic coffee - to get an organic certification you have to prove that a lot of stuff and for small coffee producers that is a lot of work. You need to pay a consultant to come down once a year to check that you are doing everything correctly. And then you can also ask, can he check what you are doing the rest of the year? And if you look at the individual criteria, criteria like waste water management, that is not part of organic certification. And that is a big issue in washing coffee, that you pollute the streams with waste water. And that is polluting the poorest people in the area because they use this as a drinking water source. There are also some copper compounds that you can spray your coffee with and still get organic certification. So to me organic certification is not working in coffee production.

I mean the people we work with in Kieni - referring to this last blog post - I was really amazed to see the way that they are changing now. They don't have the access to buy cheap fertilizers so they use a lot composting now. They are also starting to grow a lot more - instead of growing just coffee and cleaning the fields of everything else - they are growing vegetables and different plants that are fixing nitrogen into the soil and thereby adding nutrients to the soil. So it is a much more ecological way of working than before. But they can not get organic certification because they still have this pest issue and they have no other solution to treat it. It takes a lot of knowledge and understanding on how to work with pests and also a willingness to risk your yearly income. If you go organic and you get some disease that you cannot treat... I know some producers in Guatemala, they were producing organically, but when the coffee rust came they stopped the organic certification, because they could not find a way to keep the business going and make a living with that certification. And they were really frustrated, because they believed in this. In this way the organic certification is ambivalent, because I understand the idea but it is just not binging sustainability as I see it. Because there is much more to the coffee business, in the trade structure there is still this post-colonial structure. Producers are not slaves anymore, they are not producing for free, but if you look at market price development, you can go back to the 50s and see that back then the price in nominal terms is the same, when some of the coffee producing countries were still colonies. So they are not colonies anymore but we are still paying the same price for the product.

So the system has not changed. And if we want to believe in any kind of sustainability then the way to solve this is to pay a price that is actually paying for the work and the social and environmental cost that are related to the production.

SS: So, taking the example of Kieni, are you saying that by paying more you empower the producers and give them the inspiration to change their processes?

PD: Yes, I hope so. We are now starting to see this. And that was the main thing about this November trip, that we really saw some changes. We also felt that the people there were actually starting to believe in this. You could see concrete things like some of them have been also able to buy water tanks to gather rain water for their homes and some were able to buy bricks to built brick houses. And that was really nice to see. And at the same time they are really improving the production. I hope that we can empower them to make a better living and get closer to a sustainable coffee production.

SS: Perfect, thank you.

Appendix 8: Interview with Søren Sylvest, Managing Director of Estate Coffee

Interview partner	Interview with Søren Sylvest, Managing Director of ESTATE COFFEE
Date	26-03-2015
Duration	55 minutes
Place	Chokolade Compagniet A/S, Dronning Olgas Vej 30, 2000 Frederiksberg

SS: Why did you sell the Café?

SY: Because, basically we are a roaster and wholesale company and it is a totally different operation to have a café or retail store. and it just took to many resources, basically.

SS: It is interesting, because other companies, like Coffee Collective, they do it. They have a café and combine the café business and the direct trade.

SY: Yes. If you look at this company though, the Chkolade Compagniet. Only 25% of our sales is coffee. We also sell chocolate and tea. We are a fine food company. The coffee we sell we produce ourselves by roasting is ourselves and purchasing it directly. The tea we own the brand and define the brand and we have someone else produce it. And the chocolate we franchise. So it is three different approaches to out three main categories. But like risteriet and Collective - not KONTRA - but the other two, they are shop roasters that have grown. We came with a wholesale approach. And we opened the café to have like a flagship store. Now we basically decided we would not run stores anymore but we would leave that to the sister organization, Meyers. They have a lot of stores and we will concentrate on the production. It was not an easy decision but it was the right decision.

SS: You started with the café in 2000 and then the roastery in 2005, right?

SY: But we actually started roasting in 1996 and we founded the brand in 1996 and then we roasted with a company called Danks Kaffeekompagniet that was owned by the coop system. And we actually had an atelier with the right machines at that time, German drum roaster. Everything was fine, but then they sold their company and it was moved to Jutland and Sweden. And at that time we decided we could not be close enough to the coffee operation, so we decided to make our own roasting facility in Valby. And then we just moved it, because they were building apartments all over the place.

SS: And you started 1996 together with Claus Meyer.

SY: Yes, the two of us started the business together. At that time we already had the Chokolade Compagniet structure in place. So we added on coffee and we added on imported tea.

SS: Ok, then I will just start with the most personal question: What was your motivation to get into coffee and to start direct trade?

SY: That is two different questions. So the motivation for coffee was actually for Claus to develop the coffee scene that was underdeveloped at that time. And he was very inspired by having met a Danish Brazilian guy who operated in America and he was looking for some new areas of business and where we could use some energy. So he presented the idea creating a high-end brand that would challenge the wine, I mean challenge the existing coffee scene but also trying coffee with a wine perspective. And at that time we were looking at the terroir movement in the States and those kind of things and what would impact the coffee positively from the wine world. And then over time we realized that in order to do that we would have to have direct connections. And then when the direct trade movement, or wave, or definition came up, we connected to that because it was a framework for what we already did.

So we thought that it would be nice to have this, I call it a "grass root certificate". Because it is not an authority like Organic or Rainforest Alliance, but nevertheless, it is simple and it is precise on what we are doing and the Collective is doing. I don't know if anyone else in Denmark is connected to that?

SS: No the trademark DirectTrade® is only used by you and Coffee Collective.

SY: Yes, but I mean, anyone could do that if they apply the same standards. I mean, for us it is pretty simple. The only thing we changed was that we would go there every year instead of every second year or watching if it is necessary to go or not. And this also helped us to see more things and be more updated on other activities in the markets.

SS: Do you have some of the same producers that Coffee Collective has?

SY: No we don't. We try to... Actually, we do, sorry. But we try not to have it. I think the spirit is that you have your own relations and be unique in the farmers you choose. And there are so many farmers, so why don't we find another farmer? I think both companies have that approach and we do not want to copy the other one. We do not want to be copyists. Though we have a past together, the four guys worked for us, we were in a team. And way back we were supporting Klaus Thompson to become the world champion - he was the World champion in 2006. And in the search for the ultimate espresso in the mid-2000s, we met the farm Daterra in Brazil. And they are a very good base coffee for espresso, and very stable. So you do not need to worry and they provide steady quality over the years. So we use the same producer for blending espresso. We might have different varieties and different approaches, but basically Daterra is the only one where I understand that we have a mutual supplier. But I know that for example risteriet they use Daterra but they buy it from Europe. As I understand, Daterra prefers to have importers in each region. But due to the relations we have to owners and the history, both Copenhagen roaster and the Collective have direct trade relations with Daterra and we also purchase sustantial amounts of bags from them to be able to do that.

SS: Daterra is a very professional producers. It is not this romantic image that most people have in their head of a small, poor farmer. Daterra has this tasting room and so on.

SY: Yes, but a lot of farms have that today. But Daterra had a different approach. I mean, Brazilian farms are difficult to compare to Central American farms. But Daterra had the approach that you had a family-run business in another field but a very passionate leader, Luis Pascoal, whos dream was to make the ultimate coffee farm. So he had the money and the time to carry his ambitions for coffee. He is 67, he went to Harvard, where he met a guy called George Howell.

SS: Oh, really? They know each other?

SY: Yes, they are very close. You know they inspired each other, and they are coffee nerds basically who made a business out of it. But Daterra is still not the main business to the Pascoal family. So he had a different approach, he could keep on experimenting but he didn't live from the farm, so he id not have to - like inherit the farm and move it on to the next step. So that is quiet different from other farmers' situations.

SS: Do you think that with the emergence of for example Daterra as a professional business during the last year - do you think that the relationship between producers and roasters is changing with producers becoming more professional and building their own brands as well?

SY: I think you are right about producers building costumer platforms and brands. They are very far away from the muddy farmers. But I think we have a better case in Guatemala. The finca hermosa. This case is interesting, because it is a guy called Max Perez, he is young, like 30, a young family Dad. But he is second generation. His family has a farm in Huehuetenango, and he purchased a farm in Acatenango, with the ambition to create a corporation and a Cup of Excellence winning farm. And he purchased this farm he found on the internet with already different lots with separated varieties. So a really high-end farm. And he produces fantastic coffee with very exact profiles. And he has the ambition to win the Cup of Excellence and to create a brand as of 30 years old. That is new! And he has the means to do so somehow. Somehow, he has the finance. He is a good example of a modern. urban coffee farmer. Most farmers, or the guys owning farms in Guatemala, they basically live in Guatemala city, not every night, but they drive to their farms three hours or more and then they stay there fro some days or during the harvest. But basically they re urban people. It is not rural people.

SS: But those are the people that are progressive about their farm and those are also the ones that enter trade relationships with speciality roasters.

SY: I think so. Did you talk to the Collective? Their guy from Vista Hermosa, he lives in Portland and is a well-educated type. I think the social media and the easy access to the internet. And the new generations, I mean people up to 40, who are now second generation farmers and see what the others are doing, also because they are connected via the internet. They have access to communication and marketing tools and this changes the business. It does not change for us, basically. It is only to the better. The more aware they are that their coffee should also be a brand, and their farm should be a brand, the better coffee they provide. And we have always been sharing the information, you know we always put the farmer's name on the back. So for us it is perfect that they are creating a brand. Though coming back to your question if we share suppliers: We are not too fond of putting Daterra's name on the bag, because everybody has Daterra. So it is not as interesting. (Shows a bag of packaged coffee.) But basically, here we have ESTATE's brand name and right below the farm name.

SS: But then, if Daterra would become a brand of its own that is recognized by consumers for high quality? Would you then put it on?

SY: Eventually, yes. But that is totally right: If they would grow a very strong brand that is actually in demand from end-users. Then we would consider it.

SS: How would you describe the relationship to your farmers? Do you see your farmers as partners, friends?

SY: I think this is a good case. I mean I had dinner with Luis Pacoal when he was in Copenhagen, but let's call it business friends. It is people you are in contact with over the years and it is a long relationship. I met Luis the first time in 2006 probably, no 2004. So I know this guy and his family - it is often families - for 10 years now. So it is people you would like to spend time with if the occasion is there, I mean we are living in different areas. Some of them, some of them you do not connect with. But basically, it is good relations and we are on the same team to provide the best coffee. And we depend on each other for that.

But of course I look at farmers differently. For example this coffee (points to the bag), Las Gravilias, the family of Fabrizio Marins, the son is 45 and the dad is 60 I guess. And we purchase the main part of their crop, because it is the best Organic coffee we found so far. And there what we do with them - the 200 bags we buy - is much more important for them then when we buy 200 bags from Daterra. So I also look at how we are economically grounded in comparison to the other party.

SS: So you are saying that for a small farmers, like Las Gravilias, you are more important as a partner than for Daterra?

SY: Yes we are and we should be more responsible. And we are more responsible. I mean we listen to their projects. With Daterra it is up to them to solve their issues and we solve our issues. But I have a funny case here I think, way back in the 90s you know in the early stages I was invited to an event with the president of Nicaragua in Copenhagen. So I was in a room with I guess 50 people from Nicaragua, and I realized that even though it is a poor country, all of them were at least 10 times richer than me. So you get the point, it depends on the size of their company and their related companies. What I am saying is that a coffee farmer is not necessarily a poor guy. But where we do work with the families with the lowest income is probably in the coop system, where they are a member of a producer coop and an export coop like in Nicaragua. Whereas most farmers in Costa Rica they are middle-class. I don't know where that leads us to. But we look at each partner and see what we can do with them and how we do that.

SS: So it is fair to say that the relationship with the producers is different depending on what kind of producer it is?

SY: Yes, for example here we supported them, we paid an extra one-year premium to help them to fight Roya (Sanish for Coffee Rust Disease). We would not do that for a big Brazilian farm.

SS: Do you give guarantees for a price that you are going to ay next year again? Or do you give a guarantee for volume?

SY: Yes, this is basically outright prices. We do not look at the, this is 4$ per pound, every year. So in New York, it is different sometimes, this year is was 1,50 I guess because it was Christmas time and it has been 2. But direct trade is like 20 cents over Fair Trade. So most of the coffee that we buy for the black label Estate coffee, are outright prices that do not vary from year to year. So basically for this family it is important to maintain quality so that we can have an agreement from year to year. But they have to deliver the quality, otherwise we cannot afford to buy coffee expensively and not move it on to the end-user.

SS: Did you ever have a case where you had to terminate the relationship?

SY: Oh yes.

SS: Was it because of quality issues?

SY: No. We had a direct trade relationship that ended because....Well what happened was that I was preparing my trip to Guatemala last year and the family that owned Valparaiso wrote to me "We had to sell the farm, we could not support the interest rates for the loan on the farm. But we have a another farm left, a small farm, so maybe you want to take a look at that coffee." And I said yes, I am open. Although their coffee had been a bit overpriced but we liked the coffee and we liked the relation. Then I investigated and we have a strong relation with an independent person in Guatemala. And she arranged a meeting with the new owner, which was a financial institution. Logically enough, but I realized that there were more like industry people having a number of farms. But the CEO brought up and interesting question, he asked, so for how long do you buy Valparaiso coffee? Well for 2007, so for 6 years. And he said, oh well, but 4 years ago we took over the farm. So they had been selling us Valparaiso coffee without owning the farm, without having Valparaiso coffee. And they even showed me around on the farm. So that relation we had to terminate.

SS: So there is also a lot of trust involved.

SY: I realized, that you cannot recognize coffee. And what happened was that they had supplied us with coffee from their own farm, which is a little over altitude, but great coffee. So let's say if they had ben honest and said, oh you know I can now only offer you coffee from our farm. Then we would probably still be partners. But at the time he sold the farm. So that is an interesting case. We have other cases, but that was due to a lack in demand for a certain coffee or because the producers changed their methods, for example from Organic to conventional and then there was no demand for that coffee. Or they just dropped in quality - that happens also. But this case is interesting. Because for them, they were trying to keep the trade mark Valparaiso - they had built a brand, even though they did not own the farm. So somehow they figured they could still sell under the trade mark and that was ok. But for us it was not and they knew. And on the same trip, Gabriela, the local expert took me around and said, now we will look at this farm in Acatenango. And I don't know if you know the structure in Guatemala, but you have Antigua as still the region of Burdeau for coffee in Guatemala. Actually that is where you get the best premiums, at least in the traditional coffee market. And the region next to it is called Acatenango. So what happens here is that in this regions they grow good coffee and then they sell it as micro lots, obviously, but not to me or some mike-minded colleague, but to farmers in Antigua that then sell it on as their micro lots. So somehow the coffee gets the Antigua stamp and everybody earns money. But I would not want to buy an Antigua that is not grown in Antigua. But others don't mind or don't understand. How could you know? Because the fact is that is a micro lot and it is a special variety. Then you cannot trust you tongue-Because normally you would be able to taste Antigua towards Acatenango. But here you cannot, because it is so special. And that is what you buy also. You buy the special cup profile. But the fact is also that the approach from us is maybe very direct, but I guess also other roaster you would like to know exactly what you are buying. But this happens a lot!

SS: It is interesting, because even though you go there each year, things like this can still happen.

SY: I felt betrayed.

SS: Yes, of course.

SY: Because I have photos, where they drove me around in the fields and I was there. It was really not a nice feeling. But most of it was not nice because I felt like I had been misinforming my customers. But it shows that even with annual visits, things like this can happen, if you do not work with an honest player. But I still think that for us is was a fraud, but for them, not really. I mean when I confronted the owner. I consider him as a business friend or a strong relation that I trusted. He said, yeah I will live with the shame the rest of my life. I mean he was pretty sad when he understood. For them, I mean, having their big farm go, they had some problems. And when you are struggling, also for your family, you might bend some rules that you would not on a normal basis.

SS: Maybe is also shows a bit that they did not understand your business model enough to actually trust you enough to tell the truth.

SY: Yes, they did not understand that you can do that with other clients, but not with us.

SS: You said that you use certifications like Organic. What is the added benefit that you see in that?

SY: In the B2B market it is a demand from some companies and canteens. Especially for those that go for a certain degree of organic in their production or consumption. For example, you can get a diploma saying that you are 60% organic. And having coffee and tea organic is so simple, compared to having meat organic, which is much more expensive. So that is a strong driver. And then in the consumer market it is a way to differentiate our offer and to appeal to the consumers that are conscious about organic food. So that is the commercial part of it. And then I prefer organic food to conventional food, so it is also a personal thing. But, taste is still the first criteria, so it has to be good.

SS: And how much of your trade volume goes into wholesale and how much is B2C?

SY: Ok, Our roastery Copenhagen Roaster would produce different brands, but if we look at the Estate Coffee brand, which is the one we sell ourselves, it is like 50/50. And my ambition is that 40% should be organic. I am not sure we are there yet, but we are trying. And this is all about sourcing. Last week I was in Nicaragua and they could only supply 60% of the demand of their regular customers. And I could only get one lot, when I would like two. And basically organic coffee is sold out, the whole crop is sold out in Nicaragua. Of course you can find some, but it is basically sold.

SS: Ok, so there is a high demand for organic coffee right now.

SY: Yes, especially when it is a low yield. You know it is bi-annual, so in the year when it is lower it seems to be the case.

SS: And do you give advice to your producers? For example, advice them to go organic or suggest a method against rust?

SY: You know we are not agronomists. But of course we see that if we have a best practise case, maybe a new method to fight Roya, we would tell a farmer, why don't you contact these guys, they have some interesting things going on. But we are not agronomists, we are not experts on coffee trees. But let's say we discuss with them and they ask us, if we plant Geisha, would you be interested? Then we would give them our opinion to see if we could eventually be a client for that kind of variety. So those kind of things, discussion future plans and where they should go. Especially in Brazil, I ask them to go organic because it is a joke there. You know they run big farms, going organic is a heavy duty, because there is no natural organic plantations like in Mexico or Nicaragua where you don't need to spay. In Brazil you have to work hard, so labour costs would go sky high. And they like scale production. And labour cost in Brazil is increasing year to year anyway because of the law, you know the growth in inflation plus 5% that is the rise in wages, automatically negotiated by the law.

SS: And you are teasing them to go organic.

SY: Yes, but because I know the answer. And because I would like some organic Brazilian. Again, in espresso, which is important the Brazilian pulp naturals can do something special. Though, this coffee (points at Las Gravilias coffee bag) is our backbone in our signature organic espresso. So this one does the job of the organic Brazilian, although it is not Brazilian.

SS: You also educate your consumers about the different taste profiles. I se that you have it on the coffee bags and you also have it on your website.

SY: Yes, yes. We have both the origin and also the taste profile on the bags.

SS: Do you think that is important to the development of the business? So if consumers get more educated, will they appreciate direct trade and single origins more?

SY: Yes, I mean, it is easier to have them appreciate direct trade than it is to have them appreciate the taste profiles. But both things are important. I mean if you want people to keep buying an expensive product, which it is compared to the industry. But let's take wine. I mean I can taste different wines, but the more I learn the more I am willing to pay a higher price, because then I understand it. When I am spending money and I don't understand why I am doing it then I will stop at a certain time. I think that is just basic psychology.

But we did that with chocolate. And we take a part of the work to do that in coffee. And basically, we are also enthusiastic people who wants to share the experience we get from understanding coffee. Because it is amazing what you can get out of it. And it is cheap compared to a lot of other things in life, to have a good cup of coffee. I mean compared to a goof glass of wine.

SS: How do you meet and select your suppliers?

SY: So if we go back to year 0, in the beginning we met a lot of suppliers though the Cup of Excellence. I was a judge there. And we still look at the scoreboards of the Cup of Excellence, usually not number 1 and 2, but if they are ranked there we know that they can make a good coffee, but also the profile that we are looking for. And then if we look for a new supplier in Guatemala, for example, we would ask Gabriela, who is up and coming. So that could be a way of doing it. I mean, we do not change suppliers necessarily, so we might need one new one every year. But we are always in the market for new organic high-end coffee. So I am always asking, do you know any organic farmers around. And actually visiting Valparaiso, I asked, would there be an good organic farmers in Guatemala, and we are on a dirt road going up and they said, yes, actually 100m up here there is a farm and I could connect you with them. So we met a new supplier networking with the existing farmers. So that could be a way as well. But it is not like we need 10 new ones.

But I am asking either at origin or roasters I respect. Maybe not in Copenhagen, because they might use them themselves, but maybe in London.

SS: How do you think the market is going to develop? Is there going to be a competition between different roasters to get a really good coffee?

SY: You mean to sign a farm? Hm, I don't know. That is interesting, what do you think?

SS: I am thinking that because farms are becoming more professional there will be more competition between roasters. I would think that there are pressures, like maybe also climate change, that will lead to a scarcity for high quality coffee and with a growing demand from consumers there will be more competition between roasters.

SY: Although, the producers that are asking for the real high-end coffee they cannot take that much coffee. So the really good coffee is auctioned right now. That is what you see. That is also a way to drive up the prices. But let's say Coffee Collective they find a farm, the middle size farms that make really good coffee they produce between 1000 to 2000 bags per year. And Coffee Collective could take 30. So the fact that they can only take part of it. And maybe they would give exclusivity. But they probably cannot. Maybe they have an importer in Germany and say, I cannot block him to sell to some of your colleagues.

But I have a story with an El Salvador Cup of Excellence winner. So, she basically was supported by a Norwegian company and met a US company that was able to buy the whole harvest. And they met her before she won, so when she got the score she was already fully booked. So it could happen.

SS: But the case for most relationships is that one farmers is selling to a lot of roasters and roasters also buy from a lot of different farms because they want to offer diversity.

SY: Yes that is the picture. But for example that guy in Acatenango, Max Perez, he made and agreement that he would only sell to us in Denmark, and we would only buy from him in Acatenango. So he would be our supplier in that region.

SS: How much do you roast per year? What is the volume?

SY: Of Estate coffee? 70 tons.

SS: You are very much interested in the best possible quality. So is it an option that you would own a farm yourself? Or would you say that there is some expertise in growing coffee that we actually do not have?

SY: Way back I was dreaming of it. But then looking a bit into it, I realized that it is not in reach and it is not important. It was more for storytelling. And why is it not important? Because we could not do it better than those guys who are doing it since generations. And spreading your activities like that could be quiet demanding. So we rather rely on some strong growing experts than doing it ourselves.

SS: You already told me about one challenge that you had with a supplier. Is there other barriers to communicating quality, for example language barriers or cultural misunderstandings? For example Coffee Collective told me that in Kieni their farmers do not drink coffee but tea. So they are cupping with the farmers to show them what they are actually producing. Do you experience that kind of challenges?

SY: Well, the newer generation they would speak English. Africa is a bit different, but actually Mads, our roast master is taking care of Africa for us. And actually, I would say not on a man to man level, because we would have a translator and make sure that we understand each other. But of course there are some cultural issues. And I think also Ethiopia is on a government level the most challenging of the interesting coffee countries. And since it is so complex we decided not to pursue direct trade. And that is the reason why we do not hold a Ethiopian coffee in our range, because it is simple to complex to get through with our trading philosophy. Se when we need Ethiopia we rely on an exporter - we use Ethiopian in an espresso blend. Also the fact that they changed the rules of whom could export. I mean it is a changing ballgame from year to year and we do not have the resource to cope with that.

SS: So that is a challenge from the side of the government, not from producers.

SY: Yes, and it is nearly happening in Kieni as well with the government changing the rules. So those political issues could damage or change the structure of the trade. On a personal level I don't see any issues. Because if they have achieved a certain level of quality, they also have other competences. And if it is only the language then we can find a solution.

SS: You said before that quality was the main motivation to start trading directly. Which role do ethics play?

SY: I am saying I am not buying coffee if it is not a good coffee. But ethics is equally important. It is just that you cannot have ethics overrule the quality of the coffee. But ethics is just as important. I mean, I am still looking for the perfect system. I tend to like Rainforest Alliance a lot because it takes care of the nature and to a certain level of the humans. And that is basically the two things that are most important. In a fair trade system, if they have employees, you don't know how they are paid. There is no link from the premium you pay to the wages the farmers pay. In direct trade you try to look around and see how it looks, you know the situation for the workers, and you ask around. But you are not there all the time. But you look the guy in the eyes and trust him. So I think, it is important to consider the whole system and not only the payment from us to the owner. So we are trying to take a good look and see what it brings us.

SS: Ok, thank you. Last question. Do you think the market for directly sourced coffee from single estates is going to grow or is there a natural limit to the market like with some premium products?

SY: I am happy that Peter Dupont (managing director of Coffee Collective) has done the job he did. Because now you cannot use the term direct trade if you are not committed to the criteria. Because in Sweden everybody is yelling direct trade but no body is really doing it. I am not sure how many consumers are actually able to look at Collective and us. So for the demand to increase there would have to be more roasters. But of course you invest a lot more money and also time to go and visit farmers. There are terrific import companies nowadays in Europe so you can get great coffee and save your cost, and get just as good coffee as the Collective, eventually. But there is a difference in credibility, being able to say I met the farmer or I don't.

SS: Is it also an advantage to being faster and more innovative, in bringing new tastes to the market and so on?

SY: Well, let's say I am a shop roaster and I did not have the resources to go to origin. Then I would focus more on the taste and on the way I roasted it. Of course any organization would enhance their strength and not their weaknesses. But I think more companies should apply direct trade in order for the awareness around it to grow. But what do you respond to the question, what do you do to pay the farmers substantially? With direct trade we have a precise explanation that is convincing. And I have never met a person that was not convinced that it is a good system.

SS: Ok, great, thank you.

SY: I hope I could help!

SS: Yes, definitely. This was my third interview, actually. I had one with Kurt Dalsgaard from KONTRA and then Peter Dupont from the Collective.

SY: We were in the same Cupping Club in this room actually 15 years ago. Because Peter was working for us and conducting the Cupping Club and Kurt was here with his colleagues from KONTRA, they were not KONTRA at that time, but yes, the coffee industry in Copenhagen is still very connected.