

THE TIME IS NOW

Sustainable Coffee Challenge
Progress update & ICO Partnership

124th ICO Council, Nairobi, Kenya
March 28, 2019



**SUSTAINABLE
COFFEE
CHALLENGE**



SUSTAINABLE COFFEE CHALLENGE

The Challenge is a dynamic and diverse coalition focused on catalyzing the demand for sustainability across coffee value chain, with a shared vision to make coffee the world's first fully sustainable agricultural product

NY C-PRICE DRASTICALLY DROPS, AFFECTING FARMER REVENUE

End of day Commodity Futures Price Quotes for Coffee



CLIMATE CHANGE IS AFFECTING COFFEE PRODUCTIVITY + QUALITY

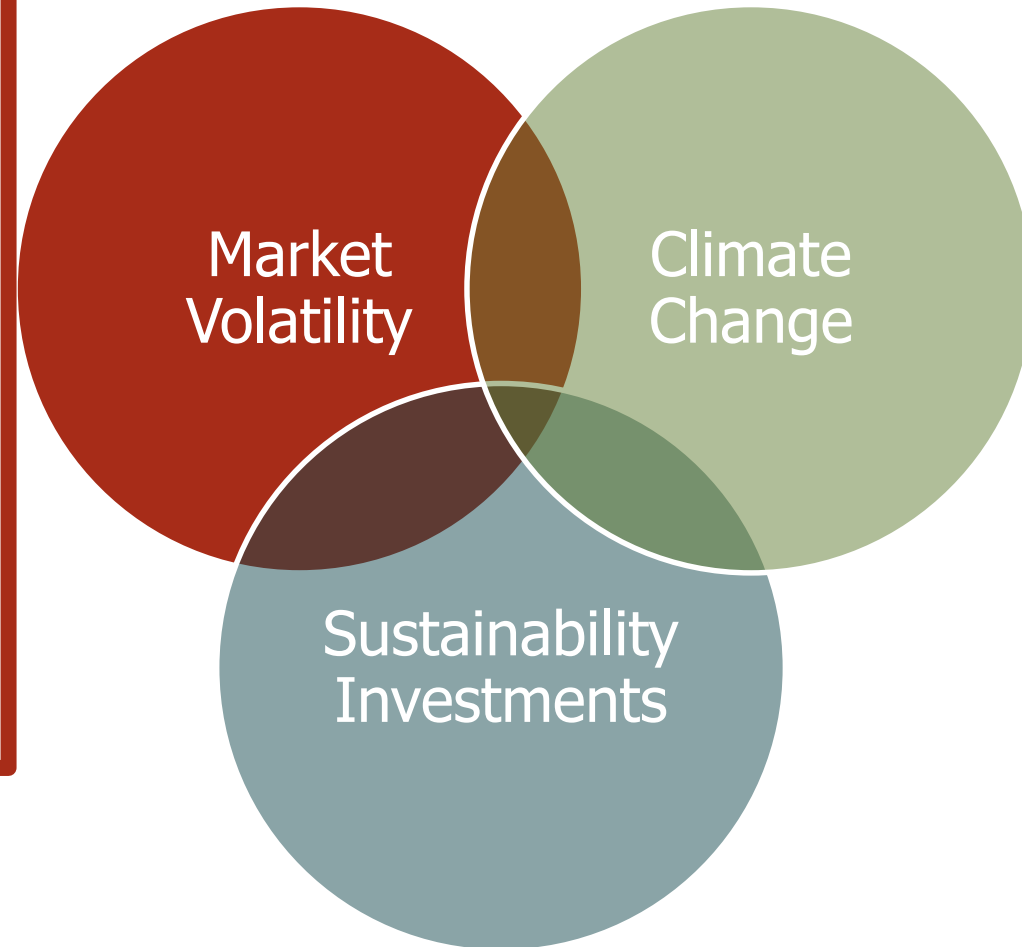


© Conservation International/photo by Tory Read

LONG-TERM IMPACTS ON COFFEE-PRODUCING COMMUNITIES + FUTURE SUPPLY

LOW PRICES X CLIMATE CHANGE = RAPID DECLINE IN PRODUCTIVITY + QUALITY

- Poverty
- Farmers leave coffee, which leads to migration and land-use change
- Lack of capital leads to lower re-investment in the farm resulting in declining productivity + quality.
- Poorer labor practices/conditions due to high proportion of production costs
- Poorer environmental practices as farmers cut costs, plant more coffee or transition to non-tree crop.
- ...



- Farmers leave coffee / change to another crop or diversify with coffee
- Decreased productivity, decreased quality (pests, diseases, suitability)
- Migrant labor patterns are disrupted affecting harvest
- Farmers move to higher altitude for suitable land, leading to potential deforestation
- Potential need to change processing techniques if water becomes more scarce.
- ...

Are we investing in the most effective sustainability programs?



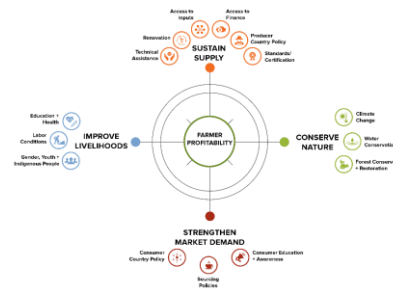
CHALLENGE INTERVENTIONS ON MARKET VOLATILITY + FARMER PROFITABILITY

1. Push out resources + tools via Sourcing Action Network



- Drive discussion about concrete measures taken across the industry (e.g. Cost of Sustainable Production benchmarks)
- 3-pager ‘Supporting Farmers in a Volatile Coffee Market’

2. Revisit Sustainability Framework through profitability angle



- Re-visit this discussion and reframe Sustainability Framework around price as the ‘central pillar’ (see [draft diagram](#))
- Develop guidance materials for companies to implement the Framework

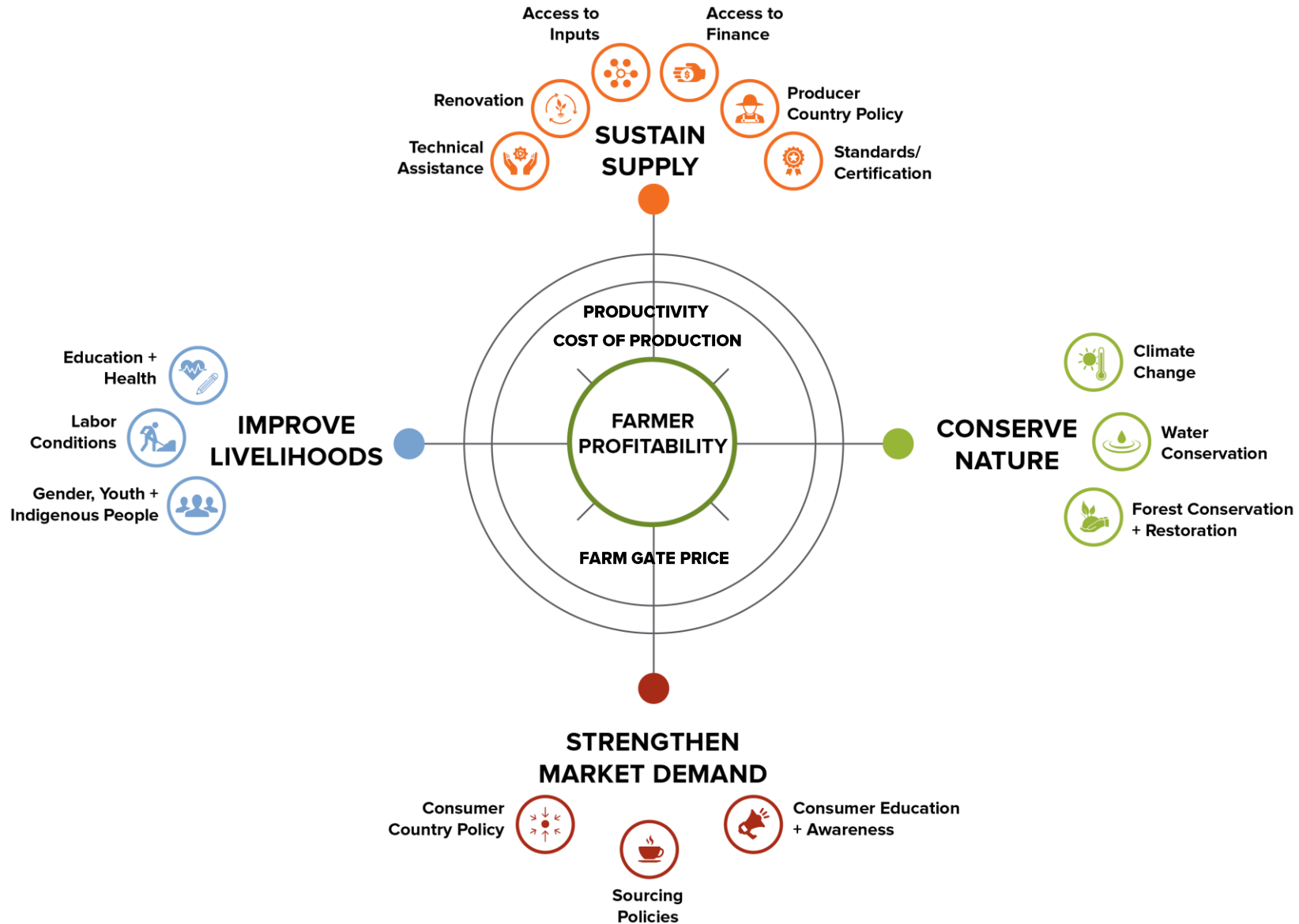
3. Support + engage in multi-stakeholder initiatives + programs



- Support ICO in implementation of Resolution 465 – stakeholder consultations + CEO Dialogue, support research
- SCA Coffee Price Crisis Response Initiative



FARMER PROFITABILITY WITHIN THE SUSTAINABILITY FRAMEWORK





© ALEX BRYCE



**SUSTAINABLE
COFFEE
CHALLENGE**

CHALLENGE UPDATES

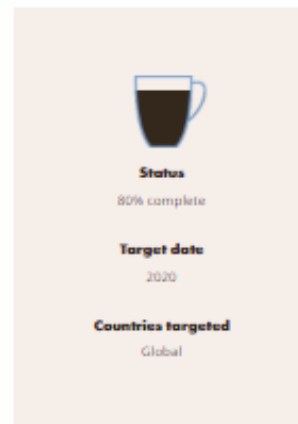
OUR PARTNERS



INCREASING TRANSPARENCY

To increase transparency and promote knowledge sharing across the sector, partners in the Challenge publicly state and track the investments and actions via a ‘Commitments Hub’

Sample Commitment:



NESPRESSO

Our Commitments

ENSURE THE RESILIENCE OF COFFEE FARMS AND COMMUNITIES by

- Sourcing towards 100% of our permanent coffees through the AAA Sustainable Quality(TM) Program,
- Increasing the share of certified coffees in the AAA supply,
- Innovating in solutions to better farmers' livelihoods
- Deploying an extensive agroforestry program in the coffee landscapes.

This coffee commitment is part of a larger set of ambitions that the company has defined to deliver against "The Positive Cup" conviction: To make each cup of Nespresso an extraordinary coffee experience, creating pleasure for consumers and benefits for wider society and the environment. The Positive Cup 2020 plan is sustained with a CHF 500 million investment by the company (2014 - 2020).

UPDATE

August 2018

Sourcing towards 100% of our permanent coffees through the AAA Sustainable Quality(TM) Program: In 2017, the AAA Program continued to expand in east Africa so that 90% of the total coffee volume delivered to Nespresso factories is sourced from the program. The proportion from Rainforest Alliance and/or Fairtrade certified farms also increased reaching 51% (+ 15 percentage point vs. 2014).

Deploying an extensive agroforestry program in the coffee landscapes: Agroforestry and reforestation practices continued to be rolled out as a climate adaptation solution for AAA coffee producers. Over 2.5 million native trees have been planted in and around coffee farms since 2014 in Colombia, Guatemala, Ethiopia, Indonesia and Brazil

UN SUSTAINABLE DEVELOPMENT GOALS



Draft of first **Commitments Hub Report** – aggregated data from hub – Final version published Q2 2019

Visit: www.sustaincoffee.org/commitments

COLLECTIVE ACTION NETWORKS



01.

Scaling Up Sustainable Sourcing

- Focus on cost of production in relation to current market price
- 3-pager *'Supporting Farmers in a Volatile Coffee Market'*



02.

Farm Renovation & Rehabilitation

- Pocket guide with principles and sample 'code of conduct'
- Launching labor + quality research with SCA, RA, and Solidaridad



03.

Improved Labor Practices and Supply

- Updates to R&R Guidebook, e.g. Translations and on-line version
- **Developing a R&R grant facility - Secured an initial \$1M**



04.

Mapping + Monitoring of Coffee and Forests

- **Starting a 2.5 year program to map and monitor coffee and forests in Colombia and Indonesia.**
- Developing country reference sheets

R+R INTERACTIVE GUIDEBOOK

The interactive Guidebook is housed at www.sustaincoffee.org, accessible via the R&R Collective Action Network page.

01.

What do I need to know?

Meeting the R&R need will be crucial to securing coffee supply for 2050 and beyond but there are no quick fixes. Here are some key considerations.

GO

02.

Is R&R right for my supply chain?

There are so many considerations when developing a program. How do I know if a renovation or rehabilitation is right for my supply chain?

GO

03.

How can I take action?

There are seven major needs for the R&R sector, from scaling up existing approaches, to laying the foundations for future R&R.

GO

04.

Where can I learn more?

Download the Country data sheets or complete Guidebook in English, Spanish or French

GO

Farm level investment decisions are highly complex and personal given farmers needs and preferences



"Should I focus more on coffee and do R&R, or are other crops/economic activities better for me currently and in the future?"



Country Needs & Priorities

To better understand how countries needs and priorities for R&R differ we have developed data sheets on the top producing countries. These sheets can help you identify what type of actions are needed where.





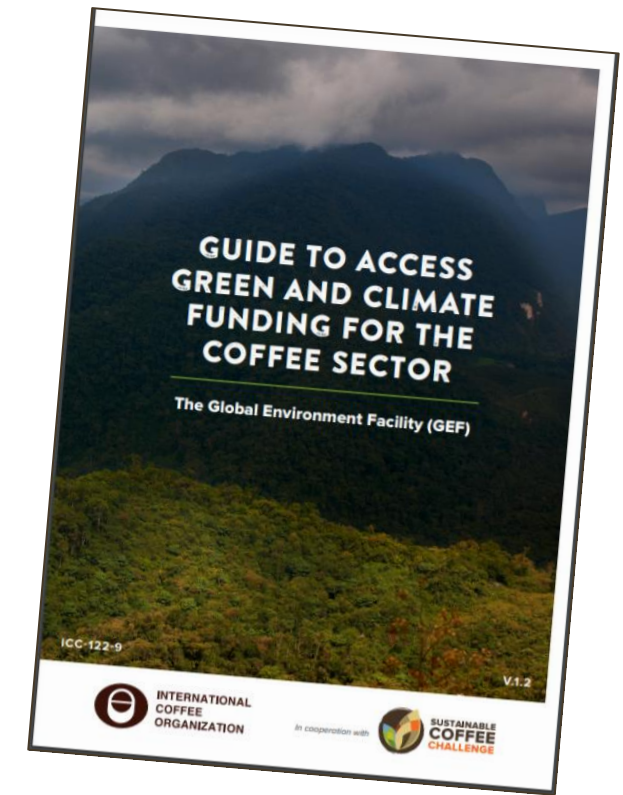
© Conservation International/photo by Tory Read



ICO COLLABORATION

PROGRESS & NEXT STEPS

- Joint publication of **Guide to Global Environment Facility (GEF)**
- ICO secretariat represented on Challenge' **Advisory Council** and support + co-hosting **key events**
- **Data gathering/ alignment and dissemination of resources**
 - Country data sheets
 - Coffee + forest initiative
 - Shade catalogue
- Support in **implementation Res. 465**
 - Stakeholder consultation (incl. events and regular updates)
 - Cost of Production Benchmark Study



for more information visit

SUSTAINCOFFEE.ORG

SEE YOU AT SCA EXPO IN BOSTON, APRIL 11 - 14

Niels Haak - nhaak@conservation.org



**SUSTAINABLE
COFFEE
CHALLENGE**



**CONSERVATION
INTERNATIONAL**

INTRODUCTORY DOCUMENT

“SUPPORTING FARMERS IN A VOLATILE COFFEE MARKET.”



THE CONTEXT

The market price for coffee fluctuates daily – there are times when the price is ‘up’ but more often, times where the price is in a downward trend. Last year when coffee prices fell below \$1.00 there was an outcry to ‘do more’ and of course, we agree. Unfortunately, this is not something new – coffee has a history of a boom and bust cycle¹. The C price, fluctuations in production in places like Brazil, Vietnam and Colombia, currency exchange rates and all the speculation related to the trade has wreaked havoc on farmers who are trying to keep their head above water in trying times. This constant uncertainty threatens the long-term supply of coffee as farmers begin to seek income alternatives. Given the current price crisis in coffee, many professionals are asking – What should we be doing to help farmers?

¹ <http://www.sustainablecoffeechallenge.org/2017/07/10/the-future-of-coffee-market-and-culture/>

ACTIONS THAT CAN HELP FARMERS WEATHER THE CRISIS

This document provides professionals working in coffee sustainability or development an overview of important considerations when purchasing coffee. Our aim in releasing it is to stimulate more discussion within corporations on opportunities for enhancing the economic stability of coffee farmers in their supply chains.

So, where can you start? Here are a few ideas:

INCREASE YOUR KNOWLEDGE OF THE COSTS A FARMER INCURS TO PRODUCE COFFEE:

- **Request cost of production data from supply chain partners:** Understanding the average cost to produce coffee across different coffee sourcing regions enables the buyer to determine pricing based on actual costs rather than relying



on the C market as the universal benchmark. When requesting this information make sure to understand the level of on-farm processing taking place across countries and the type of product delivered (i.e. cherry, parchment, green). To best compare costs, the cost of production should be calculated to average cost per quintal, kilo, or pound of cherry, parchment or green. A starting point to understand cost of production across coffee origins is the Fair Trade USA “Cost of Sustainable Production” report and the Caravella article published in the Perfect Daily Grind.

UNDERSTAND THE ACTUAL PRICES PAID TO FARMERS WITHIN YOUR SUPPLY CHAIN:

- **Request farm gate price data from supply chain partners:** The price agreed in a contract between a buyer and seller (i.e.: roaster and cooperative) is not always the price that is paid to the farmer (i.e.: farm gate price). Requesting economic transparency on farm gate prices is important to ensure that fair prices reach the farmer and do not remain at the coop / trader level. Similar to when requesting cost of production, the unit being purchased (kg/lb of cherry, parchment or green) must be understood. Understanding the farm gate price can be a powerful tool when considering pricing across a supply chain.
- **Check if there is a regulated farm gate price in countries where you source:** Some producing countries (ex: Rwanda) set a minimum price for coffee purchased from a farmer on an annual basis. This reduces the risk of unfair practices by increasing transparency of prices paid to farmers. Depending on the country, the price could be fixed or simply a suggested reference point.
- **Check the living income reference price:** Fairtrade International is undertaking a living income analysis for multiple coffee origins that could be used by the industry as a reference point for coffee prices. The calculation takes into consideration 1) the cost of a nutritious low-cost diet, 2) cost of basic decent housing, 3) other essential expenses for education, health care, clothing and transportation, and 4) provision for unexpected events. Using such a benchmark

removes the need to rely solely on the C-market for the starting point for pricing.

EXPLORE OPPORTUNITIES TO BETTER LEVERAGE MARKET MECHANISMS TO HELP STABILIZE FARMER INCOMES:

Coffee sourcing is complicated, particularly given that it can be bought on the exchange and/or through formal relationships built between a buyer and a farmer. Futures contracts, forward contracts, options, long-term pricing, minimums, etc. are mechanisms used to solidify relationships between the buyer and the farmer and may offer some opportunities for farmers (and other supply chain members) to mitigate risk. Here is a brief overview of how these tools can benefit farmers.

- **Futures contracts** allow farmers to lock in a future price (determined on the exchange) in advance of delivery, essentially hedging their risks based on speculation of the future price of coffee. When this trading instrument is used properly, it could limit losses and reduce volatility for farmers.
- **Forward contracts** are private agreements that enable the farmer to know the price they will receive for their coffee prior to delivery, which they may be able to leverage into credit.
- **Long-term pricing** enables the farmer to know the price they will receive for their coffee over a longer time frame and thereby better plan and re-invest in their farms.
- **Premiums based on quality or environmental or social performance** pay farmers prices that are above the market value based on performance, which can help buffer them against some market volatility.

To have a thoughtful and productive discussion on ways to improve purchasing practices that benefit a company and their supply chain, understanding basic market mechanisms is a must. You can check out more in the book “Dear Coffee Buyer” or by reading “The Coffee Guide” published online by the International Trade Centre.



INVEST IN BUILDING THE CAPACITY OF FARMERS TO UNDERSTAND AND LEVERAGE MARKET INSTRUMENTS:

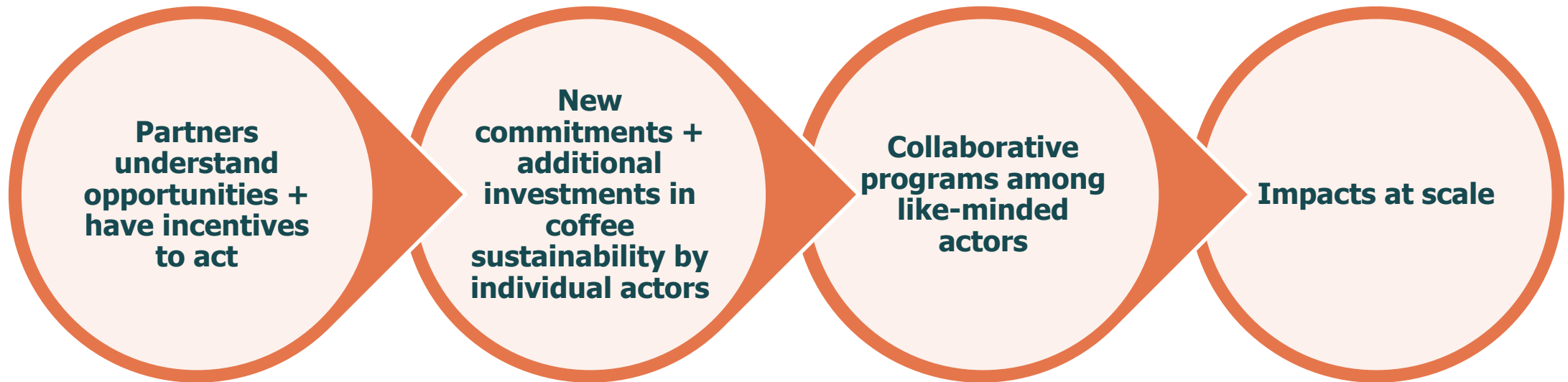
Price risk management training teaches farmers and cooperative managers how to develop financial strategies that use market tools (i.e.: hedging strategies, contracts, etc.) to reduce price volatility. This sort of knowledge is key to empower farmers to have a voice in the market. Several organizations offer online and in-person training. For example, Oikocredit, Inter-American Development Bank and Fair Trade USA are offering price risk training management to farmers in 16 coops in Honduras, Guatemala, Nicaragua, Colombia and Peru. The World Bank also offers an online, self-paced coffee price risk management course open to the public.

These are simply a few mechanisms that can help you get started in developing a strategy that enables your business and the coffee farmers you rely on to weather market crises like the one we are currently in. Many Challenge partners are working to address this topic, and we encourage you to engage in and leverage the work of Fair Trade USA, Fairtrade International, the Specialty Coffee Association, the International Coffee Organization and others are working on. We also encourage you to share your experience to enable economic development through coffee in producing countries.



OUR THEORY OF CHANGE

Making coffee the world's first sustainable agricultural product



- Develop Guidance Documents
- Develop Case Studies
- Increase Transparency
- Set Common Targets + Metrics
- Fill Information Gaps
- Leverage Finance

- Provide mechanism for transparency + reporting (Hub)
- Advise on commitments and investment strategies

- Identify common priorities
- Leverage finance to form public—public - private, private, private... partnerships
- Apply common targets and metrics

- Report on impacts using common metrics

