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Summary report on the Seminar on the economic, social and environmental impact of certification on the coffee supply chain

Background

1. A Seminar on the economic, social and environmental impact of certification on the coffee supply chain took place on Tuesday, 25 September 2012 at the ICO headquarters in London, chaired by Mr David Braun of Switzerland. The terms of reference for the Seminar (see document ED-2131/12) were developed by a working group comprising Brazil, Colombia, Switzerland and the USA. The Chairman made a summary report to the Council at its 109th Session from 24 to 28 September 2012, a copy of which is attached.
2. Copies of all the presentations are available on the ICO website (<http://www.ico.org/seminar-certification.asp>).

SUMMARY REPORT ON THE SEMINAR ON THE ECONOMIC, SOCIAL AND ENVIRONMENTAL IMPACT OF CERTIFICATION ON THE COFFEE SUPPLY CHAIN

1. The objective of the Seminar was to provide information to Members on the economic, social and environmental impact of certification on the various levels of the supply chain from farm to cup.
2. The Chairman noted that one way of improving livelihoods in developing countries was to strengthen the competitiveness of market participants and to integrate them better into world markets. Voluntary sustainability initiatives could help to improve competitiveness and thus promote sustainable development, as well as constituting a means to introduce sustainable consumption and production patterns. Certification initiatives could also be a useful approach to working together with all relevant parties on different parts of the supply chain in order to address specific issues, such as child labour, safety in the working place, responsible use of fertilizers and farmer organization. Contributions from a broad range of stakeholders were needed to achieve sustainability in agricultural supply chains.
3. The programme was divided into three parts: (1) Introduction to key issues; (2) Perspectives of certification bodies and the demand side; and (3) Perspectives and experiences of coffee producers.

Introduction to key issues

4. *Mr Daniele Giovannucci, Head of the Committee on Sustainability Assessment (COSA):* Overview of certification issues, especially results of the comparative analysis undertaken by COSA on the relative impacts of different certification/verification schemes.
5. In order to achieve true sustainability, one must understand what works and what does not from a market perspective, since there are clear signals of a commitment by the coffee industry in consuming countries to a fully certified supply chain. Based on the public commitments of major roasters, the share of certified coffees in world trade is projected to grow to 18% of the market by 2015, which raises the question whether there is a tipping point beyond which sustainable production becomes the *de facto* standard. It is vital to assess the impact of standards on multiple levels – farm, environment, community and business/supply chain – through the use of clear and transparent measurement tools. There is always a tendency to focus on economic aspects, but significant trade-offs exist in the social and environmental spheres.

6. COSA methodology looks at a number of indicators in a consistent way across crops and across countries. The resulting data suggest that certification leads to higher yields, prices, revenue and net income, as well as having a positive correlation with improvements in child education and food security. Since certifications as a market mechanism have the power to be a very powerful development tool, we need to look at how best to exploit them to serve producers, supply chains, communities and the environment. Importantly, since the cost-benefit relationship is not always clear, there is a need to lower the cost of compliance with standards. Innovations are being piloted that could reduce the cost and enhance the global effectiveness of sustainability initiatives. Finally, a greater understanding of the various elements is needed in order to move sustainability in the right direction.

Perspectives of certification bodies and the demand side

7. *Ms Annemieke Wijn, Board Member, Rainforest Alliance:* Perspective of a leading certification body

8. The Rainforest Alliance works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour. Since agriculture is responsible for more than two-thirds of deforestation globally, the link between biodiversity and land-use practices is clear. However, simply changing farm practices will not work, if this is not supported by the market. The Rainforest Alliance standard is a multi-stakeholder standard built largely on input from producers and is regularly updated. Rainforest Alliance is involved at every stage of the value chain but most importantly with training and support for farmers, without which nothing would be possible. In the chain of custody there is traceability, corporate engagement and, in consuming countries, marketing support and brand awareness in order to create not just a sustainable coffee but a market for that coffee.

9. For farmers, certification can mean a range of costs and benefits. Typically the cost is US\$40 per hectare or US\$0.02/kg, but there are huge differences due to scale effects and prior compliance. The net benefit ranges from an actual negative to a positive of US\$0.15/kg, with a typical benefit of around US\$0.11/kg. On the whole, small farmers in cooperatives and medium or large farms achieved a net economic benefit through increased productivity, higher prices, better access to markets, decreased agrochemical use and greater efficiency. There are also clear social benefits in the form of better health care, housing, access to education and organization, as well as an environmental impact through better husbandry, improved soil and water. Nevertheless, while demand for sustainably certified coffee is strong, production is slowing. Economic sustainability requires sufficient productivity and quality, since farmers cannot prosper when productivity is low. Training and organizational development are the key to ensuring continued growth.

Ms Nathalie Ritchie, Head of Ethical Sourcing and Sustainable Agriculture, Kraft Foods, UK:
Perspective of a leading roaster

10. Certification and sustainability standards have a role to play in improving the future. As a key buyer of commodities, Kraft Foods feels a responsibility to ensure the future of its suppliers. The original target of 25% sustainable sourcing by 2015 has already been met; now that certification is part of the mainstream, it is a question of scaling up. Kraft aims to achieve 100% certified coffee by 2015, compared with 35% in 2012. The challenge is to secure quality raw materials in a very competitive market, while dealing with impacts on climate change, an aging farm population and related decline in farming by reducing environmental impacts and supporting farming communities.

11. Since consumers are primarily interested in quality and price, the goal is to achieve sustainability through the following actions: moving from multiple certification standards towards baselines and benchmarking; moving from premiums to investment at origin in order to ensure long-term sustainability; shifting from traceability to transparency of the entire supply chain; moving from volume commitments to measurable results; and, finally, moving from stakeholder acceptance through branding to a seamless chain of trust with consumers.

Ms Karin Kreider, Scaling Up Director, ISEAL Alliance: Scaling up and harmonization of voluntary standards.

12. ISEAL is a membership organization comprising standards systems and accreditation bodies, including, in the field of coffee, Rainforest Alliance, the Sustainable Agriculture Network, UTZ Certified and the 4C Association. The goal is to make standards and certifications as effective as possible through the following strategies: building consensus on best practices; innovative collaboration with other users; shared learning; stakeholder engagement; improving awareness of how the systems work and what can be achieved; and advocacy of these various elements.

13. ISEAL has developed three codes of good practice. The first was a standard-setting code involving transparency, accessibility and multi-stakeholder engagement – in order to ensure widespread acceptance and local applicability. An impacts code, launched in 2010, defined the need for standards initiatives to develop monitoring and evaluation systems to assess whether the desired impacts are being achieved and whether any adjustments are needed. The latest output is an assurance code that looks at risk assessment and aims to ensure that there are no barriers to producers. An overarching set of principles has emerged naturally from these codes and ISEAL is currently engaged in a multi-stakeholder consultation to establish what defines credibility in this context.

14. Ideally, the core issues addressed by sustainability standards: combine the best scientific understanding and societal norms and values; refer to international norms, such as ILO Core Conventions and best management practices; are developed in a multi-stakeholder process; are a compromise between best practice and what is feasible; and cover a subset of core environmental and social issues. Most standards strive to embed and broaden what is already known for the context of their sector. They also cover economic issues such as quality and productivity, looking at other ways to benefit the producers as premiums fall.

15. ISEAL seeks to drive innovation in standards through collaborative learning, examining issues such as costs and barriers to certification and encouraging collaboration between standards. There is also a drive to increase the credibility of national standards and create an interface between them and international standards. Standards have evolved from a marketing tool to a supply chain management tool, innovating to demonstrate their impact and benefit to producers, recognizing the importance of quality and productivity, as well as the social and environmental aspects. A modular approach may be the key to making them less costly and easier to upscale.

Perspectives and experiences of coffee producers

16. *Mr Filtone C. Sandando, Project Manager, African Fine Coffees Association (AFCA):* Activities of CFC/ICO project on building capacity in coffee certification and verification for speciality coffee farmers in AFCA countries, and lessons learnt about certification and verification in Africa.

17. With EU/CFC funding of US\$4.5 million, supervision by the ICO and AFCA as the Executing Agency, the project is targeting 6,030 beneficiaries over five years in nine implementing countries: Burundi, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe. The overall objective is to improve the skills of farmers to meet certification and verification standards, thereby increasing the level of certified and verified coffees and building capacity to meet the projected global demand of 25% certified coffees from Africa.

18. Key project activities involve the training of master trainers, trainer-of-trainers, certifiers/verifiers and farmers. Following training by service providers, the master trainers translate the skills or expertise to the trainer-of-trainers, who then train the farmers in compliance with the various certification or verification standards. Certifiers and verifiers are trained by an accredited service provider in the various private standards.

19. Since it has become clear that there is a gap in the implementation process between training and compliance, capacity-building efforts must be accompanied by addressing compliance costs. In Africa, a number of variables, which vary from standard to standard, affect compliance costs. Since different standards emphasise different aspects, whether social, economic or environmental, preparing farmers for a multiple certification approach will lead to lower costs, if they decide to switch from one standard to another.

20. In conclusion, through capacity building for certification and verification, the project provides an opportunity for African farmers to be prepared for markets that require sustainable volumes with particular regard to quality and the environment.

Mr Carlos Ariel García, Senior Researcher at Centre for Regional, Coffee and Entrepreneurial Studies (CRECE), Colombia: Evolution and outlook for sustainability initiatives, including results of the impact evaluation and highlights of research carried out in Colombia

21. A review of the evidence on the impact of standards and certifications on coffee growers in Colombia shows a gradual evolution, which required government and institutional support to achieve the desired results. The market share of sustainable coffee programmes is changing rapidly. World sustainable production has grown to over 20 million bags over the last ten years and Colombian coffee growers are increasingly adopting such schemes – in 2011 almost 20% (130,000 farms) were producing verified and certified sustainable coffees. However, there is insufficient evidence comparing the impact of the most important initiatives at farm level, with a disproportionate number of studies focusing on Fair Trade and organic certifications.

22. Adopting a broad view of standards, the COSA Colombian Study was launched in 2008 to examine four certifications (Fair Trade, Organics, Rainforest Alliance, UTZ Certified) and three codes of conduct (4C, Nespresso AAA, C.A.F.E. Practices) and included a control group of conventional farmers in a total sample of 2,477 coffee farms. By measuring the social, environmental and economic impact of sustainability initiatives over the longer term, the study will examine the most appropriate tools for farmers. As farmers' perceptions of these initiatives improve, there has been a gradual progress in their uptake and environmental conservation practices are progressing.

23. There has been a high intensity of training for small farmers, but the number of training hours is falling due to a reduction in the budgets of supporting institutions. The question is whether producers will continue with these practices if institutional support is discontinued. One factor is that net income for certified producers is much higher, while for conventional producers it has fallen. As a result, certification is growing but the amount of

coffee sold to initiatives is decreasing and, even though farmers' satisfaction with the initiatives is still generally high, the percentage of satisfied farmers has dropped since 2008. Satisfaction with the initiatives depends on income levels, with higher levels of income being associated with higher levels of satisfaction.

24. The evolution of coffee sustainability initiatives over the last four years shows a positive progress in farming practices. However, the nature of the impact is difficult to evaluate and needs to be analysed in the longer term, requiring additional investment in knowledge and organizational support.

Mr Gabriel Ferreira Bartholo, General Manager, Empresa Brasileira de Pesquisa Agropecuária (EMBRAPA), Brazil: Evolution and outlook for sustainability initiatives – experiences of obtaining certification and research carried out in Brazil

25. While all three pillars of sustainability (social, economic and environmental) are important, particular emphasis should be placed on the economic aspect. In order to achieve comparative advantage there is a need to promote the efficient use of resources to generate wealth. If no overall strategic policy exists, structural obstacles to the development of coffee sector sustainability prevail. Productivity and quality can be promoted through greater technical knowledge, technology use and the introduction of more productive cultivars, which have brought about an increase in yields from 21 to 27 bags/hectare.

26. If sustainability is to be ensured, a change in agronomic, processing and commercial practices, as well as necessary legislation to support the existing technical capability, is required. In terms of post-harvest practices, this means the use of innovative technologies, such as the recycling of waste water in coffee processing, together with increased investment in training.

27. With demand for differentiated coffees growing at the expense of generic products, producers must seek competitive advantage by improving agricultural and management practices, strengthening organizational structures and introducing management technologies and systems. Integrated Coffee Production (ICP) is an initiative that seeks to establish a code of conduct based on the operational components needed for compliance with general standards. There is a seal to ensure that the coffee meets various criteria based on successes in other sectors such as fruit, which has achieved international recognition. The first stage is to improve the current model through integrated production, for which purpose a credit line of BRL\$50 million has been established.

28. The 'Certifica Minas Café' Programme was created in 2007 by the State of Minas Gerais, which accounts for 50% of Brazil's coffee production, to promote good practices. It focuses on environmental practices, with the technical cooperation of UTZ Certified and has led to a reduction in the cost of certification. A technical cooperation agreement with the Brazilian Coffee Industry Association (ABIC) has established a 10% to 25% premium on the basis of coffee quality. Speciality coffees have seen significant growth in Minas Gerais, with around 1,800 farms certified in 2012. The improved technical efficiency, productivity and profitability provide a vision of the future for Brazil's coffee sector.

Dr Misnawi Jati, Senior Researcher and Head of Post Harvest Technology Department, Indonesian Coffee and Cocoa Research Institute (ICCRI), Indonesia: Challenges of sustainable coffee certification in Indonesia

29. In Indonesia 91% of coffee farmers are smallholders with less than one hectare. The broad expanse of land area and diversity of culture have led to 'specificity' – a wide range of coffee types, including two recently developed geographical origins: Kintamani and Flores-Bajawa. Indonesia's excellent record in sustainability results from the family-based nature of the coffee sector, but there are quality issues, especially where farms are far from processing facilities and continue to use dry processing. There are around 46 companies involved in certified coffee, with annual production of around 767,000 bags. International organic standards are the most established, followed by other international certifications and by a homegrown certification, especially for organic, called Organic Standard National Indonesia (OSNI). When comparing different schemes, it is clear that each has a different focus, which can be a concern, as some farmers have to be certified by two or three different programmes.

30. The requirements of a particular standard can cause problems due to the small size of farms and local conditions, with a multiplicity of certification programmes leading to confusion and high costs. While the primary incentive to farmers is increased income, it is important that they are aware of the other benefits of sustainable production. At the same time, diminishing consumer interest and reduced premiums can reduce the incentive to deal with certain schemes. From a government perspective there is already a commitment to support sustainability by empowering farmer organizations, improving quality and productivity, strengthening the domestic market, improving added value from coffee exports, developing the relationship between farmers and exporters and applying good practice in coffee business. With the aim of simplifying and reconciling many different systems into a cost-effective national standard, it is vital to build a system that is locally applicable but globally accepted.

Discussions and issues

31. During the question and answer session, delegates raised various issues about the added value from certification and the percentage achieving a premium, the reduction of certification costs and the benefits of multiple certifications versus baseline standards. In reply, the panel stated that premiums vary between 10% and 100%, with on average at least half of all coffee certified being sold at a premium. Since multiple certification enhances differentiation in the market place, farmers should be able to apply them all but in a simpler and less expensive way. Adopting baseline standards is an effective way in which to facilitate scaling up and harmonization within the industry. With regard to a perceived shift from traceability to transparency, the panel replied that it is difficult and very costly for roasters to achieve full traceability due to the complicated nature of the supply chain.

32. Further issues raised included criteria for selection of an appropriate standard, enhancing the economic benefits and reducing the costs of certification, as well as the possibility of harmonization of standards. The panel replied that the certifiers are looking at ways of harmonizing language, reducing complexity and making the process easier with the end goal of reducing costs. Where there are no differences between standards it should be easier to achieve multiple certification. However, since the certifying agencies are propelled by a range of different objectives, total harmonization may not be feasible or even desirable. On the question of choice of scheme, where there is a high level of illiteracy among farmers, it should be left to management committees to educate them on the benefits of a particular initiative. In the context of the AFCA project, a common standards manual has been developed to enable farmers to comply with requirements and permit a so-called 'combi-audit' of two or three different audits in one session, thus reducing costs. Certification is not a goal in itself but a step on the road to sustainability, assisting the trade with traceability and permitting consumers to fulfil their wish to buy sustainable coffee.

Chairman's summary

33. With demand for certified coffee rising, the industry is planning to scale up its activities in this field. While it is clear that certification can have a positive impact, questions still persist about premiums and confusion over standards, which can only be dealt with through cooperation by all stakeholders. Key issues raised included the following:

- There are clear signals of a commitment by the coffee industry in consuming countries to a fully certified supply chain.

- The impact of certification needs to be examined on multiple levels through the use of clear and transparent measurement tools, particularly by institutions in producing countries.
- The costs and benefits of certification for farmers vary greatly depending on scale and prior compliance.
- Since premiums tend to decrease over time, farmers need to consider the wider benefits of certification.
- The multiplicity of certification standards has led to a move towards a baseline standard.
- Capacity-building efforts for producers should be accompanied by addressing compliance costs.
- There are signs of a shift from traceability to transparency of the entire supply chain.
- A long-term impact assessment using broadly comparable data is needed to test the durability of the various impacts of standards and certification systems.
- Certification is not a goal in itself but a tool that can improve standards for all farmers.