



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ
ORGANISATION INTERNATIONALE DU CAFÉ

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**Report of the
Private Sector Consultative Board
on the meeting of 28 September 2011**

1. The Private Sector Consultative Board (PSCB), chaired by Mr Robert Nelson of the National Coffee Association of the United States, met for the 33rd time on 28 September in London.

Item 1: Adoption of the Agenda

2. The PSCB adopted the draft Agenda contained in document PSCB-127/11 Rev. 1.

Item 2: Report on the meeting of 28 March 2011

3. The PSCB approved the report on the meeting of 28 March 2011 contained in document PSCB-126/11.

Item 3: Coffee market situation

4. The Executive Director a.i. introduced an analysis of the coffee market situation contained in the Monthly Coffee Market Report of August 2011. He reported that prices of Arabicas on the New York futures market had increased by 1.8% in August, whereas Robustas had registered slight decreases. The ICO composite indicator price had increased to 212.19 US cents per lb. Although it stood at a near 30-year high, the picture looked very different if one allowed for inflation: using the UN index for manufactured goods since March 1965, current prices were below those prevailing before 1990.

5. World production was estimated at around 133.3 million bags for 2010/11 while initial estimates of production in crop year 2011/12 were around 130 million bags. World consumption was estimated at 134.8 million bags for calendar year 2010, so the

supply/demand balance remained fragile. The effect on stocks had also been significant, with stocks in exporting countries at an all time low and stocks in importing countries at their lowest for 10 years.

6. He noted that growth rates of coffee consumption in traditional markets had averaged 1.1% per annum over the last decade, while the comparable figure for producing countries was 4.3% and 3.8% for emerging markets. The largest year on year increases in consumption were registered by the Russian Federation, Canada, Brazil and Germany. It was also significant that Brazil was close to overtaking the USA as the world's largest coffee consumer with 18.9 million bags in 2010 in comparison to the USA's 21.8 million bags.

7. Mr Peter Blogg, Head of Product Management for Commodities at NYSE Liffe, made a presentation on recent events. He reported positive progress, particularly in relation to the Robusta Futures contract: this was a 10 tonne contract which provided for delivery of Robusta coffee from all origins and across a broad range of qualities; the grading process would include a variety of measures, it would give the option to deliver re-bagged bulk coffee as well as coffee in original bags, and would provide comprehensive sampling procedures. He drew attention to a pilot study under way in Ho Chi Minh City which would potentially offer pre-shipment grading of Robusta coffee and NYSE Liffe controlled storage in Vietnam. The response from traders and banks had been positive. If successful, it could be expanded to other countries. A survey had indicated that the market would like the Exchange to publish a Commitments of Traders Report, as in the United States. However, a different regulatory regime existed in Europe which necessitated the development of new software. This had now been tested and the first Report would be published in October. The aim was to follow the format of the short-term Commitments of Traders Report. In terms of transparency, he noted again that the regulatory regime was different from the United States and NYSE Liffe was engaging in a second round of consultations with market participants with a view to introducing a new level of accountability.

8. In response to questions about the risk between grading and shipping in the project in Vietnam, the impact on quality of the contract and delivery, he said that the Exchange would need to satisfy itself that quality would remain stable and this would be monitored closely. The delegate from AEKI expressed concern that this procedure would reduce the quality of the contract: the percentage difference between Robusta and Arabica was large: did the Exchange have any data on what effect this might have on the market? He replied that he could not comment on this aspect, but he would argue that an increase in transparency should have a positive effect. The delegate from CeCafé reported that he thought this a positive initiative; however, had the Exchange evaluated what would happen in terms of delivery? Mr Blogg replied that they had stopped short of making Ho Chi Minh

City the delivery point; the futures market was a pricing rather than a delivery mechanism. In response to a further question concerning past data on the Commitments of Traders Report, he replied that they would initially provide three to four weeks of data, but it was unclear whether they would go back further in time. The Board took note of these reports.

Item 4: Survey on challenges faced by PSCB associations

9. The Chairman introduced the results of a survey which had been carried out online after the previous meeting of the PSCB in March 2011, noting at the same time that the current meeting was much better attended, an encouraging sign. The top three concerns registered by members of the PSCB were volatility, climate change, and the changing roles of the coffee associations. The most important forces affecting the coffee industry over the next three years were deemed to be the economic situation and the necessity to engage younger generations in the work of the associations. His conclusion from the survey was that the industry must deal with the radical transformations caused by climate change and the issue of how the coffee industry could use its resources more effectively. He also noted the importance of presentations at the Board's meetings and was pleased to see that a number of highly relevant topics were scheduled for this meeting.

10. The delegate from the SCAA commented that it was useful to obtain a benchmark on the industry's concerns and he was especially interested in the need to engage with younger consumers. He offered to make a presentation on this subject at the next meeting. The delegate from the ECF said that he would like to raise a number of issues which were of concern to his association: the regulatory issues on furan and acrylamide and the more general question of European and North American regulations. One of the most important changes in Europe was the development of consumer information concerning nutrition and origin; in short, what was shown on the label. He also offered to make a presentation on this subject.

11. The representative from ISIC thought this input from the Board was valuable and he linked this to an issue raised by another delegate: how to raise the relevance of the PSCB. The Chairman added that he would be happy, on behalf of the NCA, to make a presentation at the next meeting on the situation in California and how it might affect the rest of the United States. The Board took note of these reports.

Item 5: Coffee and health

12. The delegate from ISIC made a presentation on the status of the HCP-CEP programme. The programmes in individual countries relied on the website,

newsletters and participation in conferences to deliver the message. However, new means of delivery were also being used: for example, Continuing Professional Development accreditation for pharmacists in the United Kingdom; a coffee and health information week for medical and nutrition students in a quiz format in Finland; a medical education course for GPs and nutritionists in Italy; regional media briefings at medical colleges in Spain; attendance at university medical faculties in Germany; and an annual scientific seminar for media in Denmark. The results of the Programme were demonstrably effective. Thus, a survey conducted amongst 100 GPs in Spain in 2010 showing that 89% regarded coffee as healthy as opposed to 61% in 2007.

13. He reported that the HCP-CEP programme was drawing to a close. ISIC had financed the programme for a number of years to the extent that it could now operate independently. ISIC would continue to support the programmes, but would do this through the Coffee and Health website, rather than directly. In the meantime, ISIC would be undertaking a major new scientific project which would absorb most of its resources. The delegate from the ECF confirmed that in Germany the programme would continue; it had great value since the impact of coffee on the human body was always popular in the media and an association rather than a coffee company was needed to convey the message.

Item 6: Coffee Quality-Improvement Programme (CQP)

14. Dr Tim Schilling, Executive Director of the Global Coffee Quality Research Initiative (GCQRI) gave a presentation about the work of the GCQRI whose main goal was to increase volumes of quality coffee through collaborative production and coffee quality research. The GCQRI was a legal entity with a governance and management structure. In terms of finance, it aimed to start with US\$1.5 million in 2012 and was in the process of recruiting five to six major industry donors and 20 to 30 medium small roasters, with the objective of building to US\$5 million per annum in 2015 by expanding to Europe, Japan, and Australia. The strategy for long-term research was to secure the supply chain and expand Arabica production, while concentrating on multi-location variety trials and germplasm screening and cataloguing in the short and medium term.

15. The Executive Director a.i. introduced document PM-7/11 containing a report on gradings for Arabica and Robusta coffees for calendar years 2005 to 2010 and January to June 2011. In the case of Arabica coffee, the pass levels on grade and colour analysis were over 90% while the volume of Robusta coffee deemed to be below the standard of Resolution 420 amounted to 45.3%. Vietnam was the origin of the highest volume of coffee rejected during the period.

16. The Executive Director a.i. introduced document PM-8/11 containing a report on the Coffee Quality-Improvement Programme (CQP) for calendar years 2005 to 2010 and January to June 2011. Twenty-three of the 33 Members under the ICA 2007 were implementing Resolution 420 fully, accounting for some 67.4% of world exports in the former period, and 72.1% in the first half of 2011.

Item 7: Coffee consumption market research

17. The delegate from the AJCA made a presentation on the results of the annual survey on coffee consumption in Japan which was conducted in October 2010. The survey was conducted in face to face interviews covering consumers ranging from high school age to 79 years old in 300 areas based on the national population census. The first analysis showed the consumption of each type of beverage: the percentage of people who drank coffee often had increased consistently, reaching 55% in 2010. A second analysis showed types of coffee consumed: consumption of soluble coffee was the largest with 43% compared to 30% for roasted and ground coffee, 17% for canned coffee and 10% for liquid coffee. Further data concerned coffee consumption by gender and age, a complex analysis which showed that the share of the younger and middle aged user population had been gradually decreasing, while the usage of the senior group had been increasing. He hoped that members of the PSCB might use the results of the survey to help determine their sales strategy in Japan. Copies of his presentation were circulated after the meeting and the full report is available from the ICO library.

18. The Chairman made a presentation on behalf of the NCA on the single-serve market in the United States. In general terms, the drip coffee maker accounted for 42% of coffee preparation. However, single-serve brewing systems were now the second most popular brewing method with 7% past day penetration, significantly higher than in 2010. Instant single-serve preparation remained a relatively niche market. Age was not an important factor in terms of the type of single-serve preparation methods, but there was a difference between drip and instant coffee preparation (favoured by older consumers) and espresso-machine and ready-to-drink coffee (favoured by younger consumers). Growth in awareness of single-serve systems was relatively recent across all consumer age groups, but older consumers (aged 40 plus) were likely to be more aware of these systems than younger consumers. Most single-serve preparation was at home rather than in the office or a café, while there was no dominant channel for purchasing single-serve brewers, being spread evenly across department stores, specialty stores, mass merchandisers and online. Perceptions of the single-serve systems were improving which should, in time, lead to an increase in the number of consumers committed to buying these systems.

19. In response to a question, he said that the state of the economy did not appear to be having an impact on this market. The delegate from the CAC thought that some data existed which showed that an improvement in coffee quality was having an effect on the consumer market, although distribution channels remained problematic, and he offered to make a presentation on this issue at the next meeting.

20. Mr Ramaz Chanturiya, General Director of Rusteacoffee, made a presentation on the coffee market in Russian Federation. Soluble coffee was the largest element of the coffee market in 2005, representing 76%, but this had declined to 71% in 2010, giving way to roasted/ground coffee. Overall, coffee consumption had remained stable over the last five years. However, the size of the market in monetary terms increased sharply in 2010, rising to US\$2.4 billion in terms of wholesale prices, largely as a result of the increase in green coffee prices. This compared to an average increase in terms of retail prices of only 25% in 2010. Volumes of green coffee imports increased to 17% in 2010 while the supply was spread evenly across a large number of countries: Vietnam, Brazil and Indonesia were the largest suppliers of green/roasted/ground coffee, while India and Brazil were the largest suppliers of soluble coffee. The main issues in the market were that an increase in green coffee prices could force poorer consumers to prefer tea to coffee; the formation of the customs union with Kazakhstan and Belarus strengthened uncertainty regarding the accession of the Russian Federation to the WTO; and the Russian Federation needed closer cooperation with the international coffee community and should become a member of the ICO. Finally, he invited Members to the International Coffee Forum in Moscow on 17 September 2012.

Item 8: Food safety aspects

21. The delegate from the ECF reported that the EU Food Safety Authority had recently published an update on furan, stating that “a major contributor was ... coffee”. There was very little action to be taken at present: when coffee was roasted for longer, there was less acrylamide, but more furan. Unfortunately the reverse was true as well. The EU was intending to introduce new legislation on acrylamide at the end of 2011, but the contents of this were unknown at present. In terms of furan, the research continued, but to date scientists were only at the stage of understanding how it arose. Another delegate observed that regulatory authorities in different countries were working increasingly together and furan had been added to the agenda in Canada in the previous week.

22. The delegate from the NCA said that in the United States the legal cases continued: the labour code case was lost in the appellate court and a decision was made to not pursue the case in the Supreme Court, while there had not been much recent activity in the acrylamide case. The main focus had been on California. The NCA was also concerned that Congress fund the FDA adequately so that it could focus on risk assessment effectively. The Board took note of these reports.

Item 9: Consultative Forum on Coffee Sector Finance

23. The PSCB noted that the 1st Consultative Forum had taken place on 27 September. The presentations had been very interesting and the meeting had underlined the importance of the Organization. It expressed its appreciation to the Chairman of the Forum for his excellent work and noted that it would be important to continue the momentum of this initiative. The private sector had a great deal to contribute: many exporting countries had a wealth of experience which it was extremely important to share. The Chairman noted that the work of the Forum was allied closely to the role of the PSCB and encouraged members to think about topics for discussion within the Forum. He had identified three recurring issues: confidence in markets; education; and the need to build institutions. The Board took note of this report.

Item 10: Conversion factors for roasted and soluble decaffeinated coffee

24. The Executive Director a.i. introduced document PSCB-128/11 Rev. 1 concerning recommendations for revised conversion factors for roasted and soluble decaffeinated coffee. Delegates from the ECF and NCA expressed their preference for 1.25 in the case of roasted and 2.73 in the case of soluble decaffeinated coffee. The Board took note of this information.

Item 11: Role of the PSCB

25. The Chairman noted that this item had already been discussed under Item 4 in the context of the survey undertaken among PSCB members and he asked if there were any further comments. There were none.

Item 12: Item under continuous review

26. The Chairman asked if members of the Board wished to raise any issues concerning the items which the PSCB wished to keep under review and which included: the supply of private sector statistical data, the ICGN, geographical indications, and resources of the ICO Promotion Fund. There were no further comments.

Item 13: PSCB representatives and officeholders

27. The Executive Director a.i. introduced document WP-Council 219/11. The PSCB noted that a private sector association in Indonesia was willing to be nominated for membership of the PSCB and that the name would be confirmed to the Secretariat shortly and further noted the suggestion that the Board might wish to invite an association from

the Russian Federation to join the Board. In accordance with previous practice, the Board elected Mr Robert Nelson of the NCA as Chairman and Mr Ricardo Villanueva of Anacafé as Vice-Chairman for coffee year 2011/12.

Item 14: Other business

28. The Chairman reported that he had received a communication from the Rollback Malaria Partnership, an organization based at the WTO which believed that there was considerable scope for collaboration between private sector associations represented by the PSCB and the Partnership on its Global Malaria Action Plan. The Board agreed that it would be useful to receive a presentation from the Partnership at a future meeting.

Item 15: Future meeting

29. The PSCB noted that the next meeting would take place during the week of 5 to 9 March 2012.

Presentations

30. The following presentations were made at this meeting and can be downloaded from the technical presentations section of the ICO website at <http://dev.ico.org/presents/presentation1011.htm>:

Peter Blogg, NYSE Liffe

[Developments in the NYSE Liffe Robusta coffee futures contract](#)

Roel Vassen, European Coffee Federation

[HCP-CEP update](#)

Timothy Schilling, GCQRI

[The Global Coffee Quality Research Initiative](#)

Keiji Ohta, AJCA

[Japanese survey on coffee consumption](#)

Robert Nelson, NCA

[The single-serve format: changing perceptions, growing opportunities](#)

Ramaz Chanturiya, Rusteacoffee

[Coffee market in Russia: key characteristics](#)

List of acronyms used in this report

AEKI	Association of Indonesian Coffee Exporters
AJCA	All Japan Coffee Association
Anacafé	Guatemalan National Coffee Association
CAC	Coffee Association of Canada
CeCafé	Brazilian Coffee Exporters Council
CQP	Coffee Quality-Improvement Programme
ECF	European Coffee Federation
EU	European Union
FDA	Federal Drugs Administration
GCQRI	Global Coffee Quality Research Initiative
GPs	General Practitioners
HCP-CEP	Healthcare Professions – Coffee Education Programme
ICGN	International Coffee Genome Network
ICO	International Coffee Organization
ISIC	Institute for Scientific Information on Coffee
NCA	National Coffee Association of the USA
PSCB	Private Sector Consultative Board
SCAA	Specialty Coffee Association of America
WTO	World Trade Organization