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Finding solutions Diversification, quality, added value, market development

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Mr President, Your Excellencies, Ladies and Gentlemen,

At a time when the low coffee prices push a number of coffee growers and workers into a miserable economic situation, it is the responsibility of all of us here gathered at this ICO/World Bank meeting to do our best to find solutions which can alleviate the suffering of the farmers.

Obviously, the imbalance between supply of green coffee and existing demand is the major factor which is depressing farmers' incomes.

As a Nestlé representative, I would like to start my intervention by mentioning that for my company, over the long-term the coffee supply chain has to be reoriented in order to be more sustainable than today. We consider that enhancing the economic viability, the social behaviour and the environmental management of the coffee farms is the way to improve the situation of those who work in the green coffee production.

Nestlé is actively participating in initiatives aimed at promoting the concept of sustainable coffee growing across the industry. Let me mention two:

- The Sustainable Agriculture Initiative (SAI Platform) is a food industry platform co-founded by Nestlé and two other major companies to promote sustainable practices for the agricultural raw materials. Together with the other SAI Platform members active in the coffee sector (Kraft Foods and Neumann Kaffee Gruppe) Nestlé is engaged in a working group on coffee;
- The Deutscher Kaffee Verband has launched its Common codes project for the coffee industry. Nestlé, through its German subsidiary is actively supporting this process.

As a matter of fact, we are presently confronted with a multiplication of initiatives aimed at making the coffee production more sustainable. In order to gain credibility, as well as to avoid a duplication of the work, I think we

ought to sit down together in order to federate all these efforts and to define a commonly agreed set of guidelines under the auspices of the ICO so that this approach could then be implemented in the mainstream business. Nestlé would gladly contribute to this approach by making public its own guidelines as a starting position.

Let me now revert to the key issues highlighted in the invitation: diversification, quality, added value and market development.

Diversification

Taken the increasing productivity and efficiency of coffee farms in some countries, the gap is increasing between the highly efficient operations and those whose high production costs make it difficult for them to be competitive.

For these farmers – and they are very often small farmers – diversification is a way to minimise the impact of the coffee price fluctuations and thus to stabilise or increase their income. This can be done in a number of ways, according to the farm's potential:

- According to the quality potential of the farms, it is possible for them to diversify in niche market products – often generating better revenues. The same is possible for social or environmental criteria.
- For the farms vulnerable to the price volatility due to a lower productivity and which do not have the opportunities outlined above, it is important to diversify the income with other cash generating crops or activities.

This has to be, I believe, one of the key focus areas in the sustainability work.

Quality improvement

Nestlé welcomes the ICO resolution 407. It is a signal for the farmers, as well as for the industry, that quality of the green coffee is seen as a way to contribute to the improvement of the coffee supply chain.

As I mention the quality of the coffee, I would like to point out the fact that, very often in the recent times, I have heard different parties referring to Robusta as a low quality coffee. I believe that such a simplistic view is not helping the farmers. Robusta definitively has a role to play, and let me try to explain.

One way of increasing coffee consumption is to bring new consumers to coffee – another way is to increase consumption among existing coffee drinkers.

According to my experience, bringing new consumers to that first cup is not that easy. To us coffee lovers, it might sound strange, but a black cup of coffee – even manufactured with the most exotic and outstanding beans – is not an easy taste experience for the first time.

I have found that new consumers very often want to cover up the coffee taste with milk and sugar. In this white cup environment, the Robusta coffees have a clear role to play – it comes through milk in a way that no Arabica can. Not with all the sophistication of acidity and juiciness, but with a nice, clean coffee flavour.

Considering the fact that we can probably grow coffee consumption globally much faster by bringing new consumers to coffee than by increasing consumption among current drinkers – I remind you that today, 17% of the world population account for 65% of the world coffee consumption – I believe we are not helping the farmers by so simplistically denigrating one of the species.

Let me go back to quality improvement. Nestlé is heavily supporting quality improvement programmes in several coffee producing countries. For example in Mexico, Côte d'Ivoire, Indonesia, Thailand, Philippines, Malaysia and China, Nestlé is committed to helping the coffee farmers to improve their agricultural practices. The Nestlé Agricultural Services provide free technical assistance to those farmers who seek to improve their quality and yield, while leaving them the freedom to sell their coffee production directly to the company – thus getting a higher portion of the final price – or to decide to sell it to middlemen or traders.

Added value

World-wide, Nestlé operates 27 Nescafé factories out of which 11 are located in coffee-producing countries thus allowing a large part of the added value to remain locally.

Another way of adding value for the farmer is the direct procurement system set up by Nestlé in some countries as an answer to the complexity of the local supply chain. In 2002, Nestlé bought approximately 110'000 tons of coffee through this system, in six countries (Côte d'Ivoire, Thailand, Philippines, Mexico and, in smaller quantities, China and Indonesia). This accounts for 14% of our green coffee purchases.

In the countries where we have a direct procurement system, the farmers can bring their produce directly to our buying stations where they are paid a price representing a higher share of the world reference price. A bonus is given for higher quality coffees. This system benefits the farmers:

- by simplifying the supply chain;
- by inducing quality improvement as payment is based on quality criteria;
- by providing farmers with an alternative sales channel.

Market development

It is the roasters' responsibility to increase coffee consumption, both through innovative marketing and through new products. For many years Nestlé has had a positive effect on consumption. Over the past decade, total coffee consumption increased by 17%. Driven by Nescafé, the soluble coffee

consumption increased by 35% and Nestlé increased its soluble sales by 40%. And, in line with what I have previously indicated, a large part of this increase has been achieved by bringing new consumers to coffee. This is a long lasting benefit to the farmers.

Further to that, Nestlé is involved in a number of pre-competitive initiatives aimed at increasing the coffee consumption:

- Nestlé already stated its commitment to support the ICO initiative aimed at communicating to the health professionals the beneficial effects of coffee consumption;
- Our company also actively participates in the Positively Coffee group set up within the PSCB of the ICO;
- Nestlé is supporting the research made to identify the health benefits of coffee drinking, both through collaborative efforts and through its own research facilities.

Until now, I have been reviewing what we, as roasters, have done or can do to make things better in the coffee sector. I think it is also important to mention the responsibilities of other actors in this area, and in particular of governments.

Nestlé considers that governments can also contribute to alleviate the negative impact of the fluctuating coffee prices for the farmers. In developing countries, the governments' main task should be to strengthen the rural sector, with the support of bilateral and multilateral development assistance. This must again become a priority since 70% of the world's poorest live in rural areas, and most of them are farmers.

However, over the last 20 years, the trend was to massively decrease the financing of rural development. This must be reversed. In periods of structural oversupply, farmers need help to put diversification into practice. Income stabilisation (STABEX and IMF Compensatory Financing Facility) could provide resources for such efforts.

Further to that, the agricultural subsidies and tariff barriers in developed countries (e.g. USA and EU) should be eliminated as they effectively limit coffee farmers who want to cultivate other crops that could provide them with an alternative source of income.

To conclude, I would like to say that, in all of the approaches we will develop to improve the coffee supply chain, we have to be focussed on helping those who need it the most – the vulnerable coffee farmers and farm workers – so that they are less affected by the boom to bust cycle of the coffee prices.

Thank you for your attention.