



The Worldwide Sustainable Coffee Fund

Meggen, 26 August 2005

Common Code for the Coffee Community
Mr Joppe Vanhorick,
Senior Advisor
Tourniairestraat 3
1006 Amsterdam – NL

Dear Joppe,

We appreciate your long and detailed answer of August 1. We agree that only a constructive and focused exchange of ideas can lead us to the desired advances in the worldwide coffee business. This inevitably leads to differences in opinion which we will also deal objectively, just as you did.

There are an extremely large number of items to be discussed in terms of sustainable developments and of 4C. In order to advance, we will restrict our answer to the most relevant points, leaving the minor items – minor for the time being, but not less important – for a future moment.

Verification

You mention the process monitoring, which we understand may be similar to what we all know from ISO standards.

Such process monitoring would apply to whoever registered as a 4C Unit, which in most cases will be the exporter. Since the exporter is not the farmer, only the processes inherent to the exporter can be monitored. These are the social dimensions as per the code matrix; the environmental dimensions are on the farmer level so they could not be monitored; for the economic dimensions the detailed aspects what exactly they involve still need to be determined to assess what layer will be responsible for execution.

For verifying the tasks corresponding to the farmer you foresee “That it will not always be easy to ascertain the exact source of his coffees will only induce him [the exporter] to satisfy himself that he is reasonably sure what his supplier has delivered him ...” (page 2 your letter). So the exporter knows producer XYZ and that he fulfils the requirements. But the exporter has had problems with producer ABC in the past, so ABC does not fulfil. Are the producers at the mercy of the exporters? For transparency and equality’s sake, the definition of reasonably sure is not a fair approach.

Also XYZ & friends do not need to change anything in their production method, because the exporter says that they are doing fine. So where does the coffee quality improve? Your answer to this question will be through project work. Fine. But project work is and can be done outside the 4C. It is not necessarily directly related to 4C. What then is the function of 4C in this aspect?

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To this topic, also the discussion about blends is to be included. Exporters in many coffee origin countries purchase lots in the size of 5 to 10 bags from different producers and cooperatives. At the mill, they all get mixed, filtered and sorted. So for making a container of 300 bags, the coffee can come from somewhere between 200 and 400 producers. How does an exporter know that all this coffee comes from 4C-conform environmental production? You may argue that an exporter will only purchase from who he knows. This may be true to a good degree, but he will also have to buy from other sources (incl. middlemen and 2nd middlemen) from which he does not know how the coffee is produced. And these grains get mixed with all other grains. It is therefore impossible for the exporter to ascertain that all coffee in a container stems from 4C-conform production.

Our argument applies to areas where many smallholders are present. This is true to most of the coffee producing countries. As an example, look at the figures of coffee production in India in Annex 1. As you can see, 50% of the total coffee production in India originates from small holders with less than 4 ha.

Project work

You indicated that if the buyer of green coffee is involved in project execution you don't see a conflict of interest.

From a theoretic point of view, you can apply the game of trust. Buyer A would use an approach that excludes any self interest (such as assuring volume commitment by the producer, execute the type of projects that suits his purchasing needs, taking advantage of preferential information and relationships) in the execution of his project. But he knows that Buyer B also executes projects and A disregards if B acts with or without self interest. Under regular business circumstances, A will (must) distrust B and therefore A includes self interest in his project; to the contrary the damage to his business could be considerable. Just imagine if A did the project work and B succeeded in buying the crop, would A be delighted about it? You may say that the 4Cs is different; it is about a sector wide improvement. But we all know that the coffee business is a tough business and self interest is a vital character trait.

In the practice neutral projects executed by stakeholders with commercial interest has not worked out in the past. And the coffee business is by far too complex to proof either position in all cases. You mentioned a current DKV project. As an example, can you proof us and all interested parties that with this project there is no self interest at stake?

Again, we do not blame the buyers to include some self interest in the execution of projects; it is in the human nature to look for one's advantage. The corrective step should be made on the institutional level in the sense that all projects are executed by independent, neutral organizations and supervised or co-ordinated by the national coffee boards.



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Buying process

As you indicate correctly the market will decide on the price. Even today the market determines the price of the coffee based on the quality. As identified earlier, 4C does not add anything to that, and therefore the 4C system misses its existential reason. The difference, as you mention, would be to include sustainability aspects in the price. But, do the sustainable aspects aimed at (see code matrix) justify this large apparatus the 4Cs is to set up? Also consider that the producing countries count on a national legalization for these items already. We are of the opinion that this could be achieved through a leaner approach, i.e. collaboration with the producing countries and not imposition. Now, even if the market were to compensate 4C coffee at a higher price versus non 4C coffee, there are no measurements in place that assure that the producers who undertake additional investments also receive a higher price for their coffee because the higher price is paid out to the exporter. As it stands, the producers are again exposed to the disposition of the exporters (the 4C Unit). Unless there are clear structures in place, this will lead to abuse.

Market

On page 2 of your letter (Self assessment) you mentioned "... participants cannot afford to bypass the need for self-assessment and the obligation of continuous improvement ..." and on page 4 (Small holders) "The burden of investments that 4C supposedly puts on small holders are investments that have to be made in any case if the producer, whatever his size, wants to continue with his trade."

Please note that for many producers the only thing they have on earth is their land and the coffee trees. So they will continue to work them and sell the crop in the market at the best possible price, even if it is becoming more miserable. If they don't have any investment possibility, then they won't invest. If no investment is possible, they are faced with two options: to continue as is or to abandon and emigrate to cities or to the northern hemisphere (which is what we want to avoid).

Therefore, it is not a question to force all producers to make the investments needed (in a developed economy such as the EU this could be done). Sustainable coffee policy is about guiding by leadership. If small holders realize how they can create added value (improved harvesting methods, organizational aspects, business management, sales concepts etc) and how to invest this additional extra income in long term sustainability, then we can talk about stable progress. In this sense, before demanding to make the necessary investments, let's guide and lead through a collaborative approach. In this context also see point "measurements" below.

Measurements

In your letter you mentioned better access to markets, risk management tools, information, better organizational forms and better business management (page 3, diversification and page 4, small holders), support higher efficiency and cost savings (page 2, buying process), optimization of value chain (page 1) and application of good sustainable practices (page 4, small holders).

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All these measurements are good bases. The 4C system however does not address them at all (with the sole exception of potential cost savings through social and environmental dimensions). The existing code matrix is too basic to respond to these items that could eventually make a difference.

Even without knowing what exactly is to be accomplished (referring to the lack of precision in the 4C concept of the measurements suggested in your letter), there is a tremendous discussion about the 'who and how', such as who will be involved (4C Units – exporter), who will execute (large corporations), how to monitor, how and who to compensate, etc. In any business project a clear and detailed definition of the goals is the ground work before the roll-out can be planned and discussed. This does not apply to the 4Cs as shown above. Therefore, we claimed our 3–step approach (final conclusions in our analysis) that insists on a more detailed work of the code matrix (i.e. a higher precision of what the 4C wants to achieve); knowing what has to be achieved the discussion can be lead of who does what and how the compensation system can work; and in the third phase you can approach details such as verification process and testing.

The items exposed are very critical for the sustainable development of the coffee business. We also understand that it will be very difficult for the 4Cs to include them as the concept has developed further and this would represent a step back. Nevertheless, if 4C would like to succeed it will be inevitable to make this step backward and find solutions to these items (and others, most likely). If the 4Cs continue on the current track, it will result in intricate implications which will require enormous financial and human resources to resolve and significant damage to the coffee business, at least in Europe, will be made.

To conclude, we would like to reiterate that all our work is in the best interest of the coffee business and we do not intend to damage anyone or any institution.

Yours sincerely,

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Walter Zwald

Urs Kuechler

Annex 1

Area and share of production of coffee under different coffee holdings in India 2003-04

Sr. No.	Size of Holdings (In Hectares)	No. of Holdings		Area under coffee		Share of production
		Number	% to Total	Area (in Ha)	% to Total	
I	Small Holdings					
	< 2	138209	77.5	122391	34.49	
	2 - 4	26549	14.9	67155	18.93	
	4 - 10	10717	6.0	65386	18.43	
	Total	175475	98.4	254932	71.84	60%
II	Large Holdings					
	10 - 20	1734	1.0	28808	8.30	
	20 - 40	537	0.3	14505	4.18	
	40 - 60	208	0.1	10025	2.89	
	60 - 80	126	0.1	9136	2.63	
	80 - 100	61	0.0	5863	1.69	
	Above 100	167	0.1	31571	9.10	
	Total	2833	1.6	99908	28.79	40%
III	Total (India)	178308	100.00	354840	100.00	100%

Source: India Coffee Board, <http://www.indiacoffee.org/coffeeinindia/default.htm#holdings>