



# The Worldwide Sustainable Coffee Fund

Meggen, 30 November 2005

State Secretary for Economy SECO  
Mr Ambassador Oscar Knapp  
Effingerstrasse 1

3003 Bern

## Sustainable development in the worldwide coffee business

Dear Mr Ambassador Knapp,

We refer to our interchange of opinions in the past, during which we discussed how we expected the sustainable development in the worldwide coffee business could go ahead. Since our last contact, we have continued to observe closely the happenings; with this letter we would like to draw your attention to the existing deficiencies and suggest you to take corrective actions.

Most important is the fact that no significant advances have been realized, even looking back to the beginning of the coffee crisis in 2000. In the mainstream coffee sector no single coffee farmer has benefited from the discussions held on international programmes. Further, the consumption pattern of coffee is said to be promising thanks to the emerging markets, but renewed dynamism continues to be absent in the traditional coffee markets. This is of no benefit at all since the qualities demanded in emerging markets are of lower grades (soluble), hence bringing no substantial added value to coffee producers. Besides the Coffee Fund, there is no international initiative that addresses the strengthening of the market demand for higher graded coffees, a segment that would eventually bring added value to producing countries, international coffee trade and consuming countries.

As an effect of the coffee crisis, migration from coffee producing areas to the north has been mentioned. So far this has mostly applied to the American continent. However, the recent storm of Africans to Europe through the gate of Spain includes many impoverished people that lost their economic income as a result of the coffee crisis. The edition 12/05 of the magazine GEO documented openly the circumstances of this migration, caused by poverty of rural workers. For instance, three of the major African coffee producing countries have seen a substantial reduction in the annual quantities of coffee produced:

Country	Annual coffee production 1990 - 1992 (mio bags)	Annual coffee production 2002 - 2004 (mio bags)	Reduction of annual production
Cameroon	2,000,000	730,000	63 %
Republic of Congo	1,400,000	207,000	85 %
Ivory Cost	4,200,000	2,800,000	32 %
All three countries	7,600,000	3,707,000	51 %



# The Worldwide Sustainable Coffee Fund

(Source: [www.ico.org](http://www.ico.org))

Only these three countries have lost 3,8 million bags in production, a number that stands for more than 1 million coffee farmers who lost their income. Together with all the indirect jobs derived from this income in foreign currency, we estimate that more than 4 million people lost their economic base which created an enormous pressure on the national economies and which contributed significantly to the mass movement in search of opportunities further north. Considering the quality of life of their parents and the future outlook they have, it is mostly the young workforce that decides not to follow the footsteps of the previous generation, but to look for a better opportunity.

Would it not be in the interest of seco to collaborate with the global coffee sector in real and effective actions to reinstate the bases of the local economy in Africa and other continents of coffee production?

Seco is playing the card of the 4Cs to improve the distribution of the value added processes along the supply chain in the coffee sector. Given the serenity of the matter, we want to point out very clearly that there is no failure allowed. It is prohibitive to go through the start of the pilot phase and attempt to get the programme running only to find out in four or five years time that it cannot live up to its promises! The seriousness of the consequences of such failure does not have to be mentioned at this point – they are clear to everyone.

In this context, we refer to a similar programme that had been launched as “the promising one” to bring improvements for the coffee producers: The Commodity Risk Management directed by the World Bank and strongly supported, at least initially, by seco. Initiated in 1999 with high level discussions and extensive number of work groups that such a programme calls for, it produced a good number of in depth analysis of the commercialization of coffee in more than ten coffee producing countries in 2001 and 2002 and it created the opportunity for travelling for many people. Follow up rounds have been held since then. But it has lost the political attention to move such a programme forward; it produced a large number of times more costs than it has brought benefit to a farmer, if it ever did so. The main reason for its failure was that this wonderful theoretic idea never had a chance to work out in reality because it was not based on the needs of the developing countries. It was like providing a Mercedes if what they needed was a tractor. Does the 4Cs face a similar destiny?

As it currently stands, this question can only be responded affirmatively. You have received a copy of our analysis of the 4Cs and the subsequent correspondence with the 4Cs MU. For your information, we are attaching copies of these documents again. For good order sake, we repeat the most relevant failures of the 4Cs and add a few more arguments that have come up.

Market demand. For the position of the Swiss Government in the public debate about the Swiss initiative to implement a moratorium for genetically modified products, Federal Counsellor Mr Deiss has argued that the products demanded by a market are entitled to receiving support from our federal government, referring to GM products in this case. This same argument is in contradiction with the seco support for the 4Cs. No consumer market demands 4Cs coffee – whoever prefers to engage in a product that is produced socially fair and environmentally safe has the option to acquire fair trade products. The 4Cs cannot compete with fair trade products, simply because it misses transparency: The 4Cs cannot respond to the consumer who wants to know who pays which producer how much.



# The Worldwide Sustainable Coffee Fund

Added value. Parliamentary State secretary of the German government, Dr Uschi Eid, clearly indicated at her presentation of the 4Cs at the ICO in September 2004 that the 4Cs will only proceed if it can prove that it adds value to the supply chain. So far, the proposal of the 4Cs does not add value at no point at all. As indicated above, the consumer demand for fair trade products is covered in the respective niche market. The 4Cs is currently not more than a certification scheme, which in fact adds costs to the product. Although in the Rules of Participation in the 4Cs the industry has promised to come up for these certification costs, the producers still have no prospect for added value under the 4Cs since the additional income of the certification is for the certifying companies. Even if the industry were to pay any increased price for the 4Cs coffee, the major stake of it would remain at the trading and exporting companies, in a direct or indirect form.

If you believe that the 4Cs indeed adds value, please explain us how and where.

Sustainable projects. You may argue that the 4Cs add value through the so called “capacity building”, in other words the projects in the coffee producing areas. Nevertheless, the contrary is the case – they tend to destroy value. First of all, the “purchasing partners” of the 4Cs, the multinational industry and trading companies, have the task within the 4Cs to participate in projects but they “decide about the nature, scale and amount of their contribution to capacity building activities on a voluntary basis”. The multinational companies have a natural interest in securing the purchase of their coffee. Even if this is not part of any formal agreement, it is the logical result of participating in projects. Producers and producer groups will therefore be most likely sell their coffee to whoever supported them and little by little become dependent on them. In case of any adverse happening, the producers will find themselves left alone with no capacity or knowledge to sell their coffee elsewhere at a good market price. The strong presence of multinational companies will therefore reduce the producers’ ability to move freely in the worldwide market and gain the required knowledge and connections. Eventually it reduces their ability to achieve the highest value for their product through intelligent marketing.

Secondly, the 4Cs provides moral and legal bases for the multinational companies to enter the producing markets and increase their control. Some multinational companies have long aimed at increasing their presence in coffee producing countries, but have encountered commercial and civic resistance. With the backing of a programme endorsed by many governments and the majority of the coffee industry, the 4Cs, this resistance will become weaker.

Multinational companies increasing their control in coffee producing countries bears enormous risks for their own operations. Supporting and strengthening the countries where they find easy access, i.e. the large coffee producing countries, increases their dependency on them while reducing the availability of coffees in small producing countries. Any adverse happening in the high volume coffee producing countries, such as climatic or political ones, will result in extreme movements on the international coffee market prices. Concentrating the production in only a few countries will also reduce the availability of diverse coffee qualities from the small coffee countries; an effect that the consumers will compensate with lower consumption.

Further, by executing projects and getting involved more in the production of coffee, multinational companies will over long integrate and manage certain operations and hence claim the financial benefits resulting out of their work, which will reduce the producers’ piece of cake from the value of the supply chain.



# The Worldwide Sustainable Coffee Fund

Next, there is no criterion set at all that defines how these projects have to be selected. Who and what guarantees that the farmers who really need support are being addressed and not the friendly partners of the purchasers who have been supported in the past already?

Further, the proclamation of the 4Cs has induced some multinational companies to announce some of their projects as '4C projects' and while implementing them at their own will, they worked at the back of the officially formed institutions in the producing countries – not informing and, even less, collaborating with the national coffee boards. This occurred for instance in El Salvador and Guatemala. This fact has been brought forward to their attention and sorted out for the time being. Nevertheless, this practice may be taken up again, in which case the capacity of producer organizations and national institutes to act in the interest of their members would be seriously threatened.

Last but not least, as the projects are to be implemented based on the decision of several companies independent of each other, a structured programme to bring planned improvements to the coffee producing areas, as practiced by many coffee boards over the last few years, is not guaranteed. Worse, the achievements made by the national coffee boards are severely endangered if a series of uncontrolled and uncoordinated projects 'override' the efforts of the past few years. This would constitute an enormous destruction of value.

Practicality. We have pointed out that the verification in the producing countries cannot be implemented to guarantee that the 4Cs criteria are fulfilled. The self assessment is a noble approach, but not workable. The control proposed on process monitoring is not reliable enough. Cases of non fulfilment of the criteria will soon take place and the system will lose its entire credibility. As an example, self control is applied today for the speed limits on our national roads, but a certain level of compliance can only be assured if strict control and considerable penalties are the risk for not respecting the rules. Similarly, a strict control with clear penalties would have to apply if the 4Cs were to be implemented in an efficient and credible manner. However, implementing these controls and the sanctions on a fair base involves an administrative body whose size is by far prohibitive for its cost compared to the value it creates.

In absence of this control mechanism, adverse practice will soon fall in, the human nature of the people involved will assure that it is brought forward to the public and the 4Cs will lose its credibility. If it comes worse, massive mismanagement may strongly affect the entire coffee business. Self assessment and missing serenity in control have shown the potential fatal consequences with the examples of Enron, Parmalat, Swissair, Rentenanstalt, Erb and it is your and our duty to prevent similar happenings in coffee.

Mr Vanhorick of the 4Cs MU explained in his letter that it "will only induce him [the exporter] to satisfy him that he is reasonably sure what his supplier has delivered him and improving on his own T & T [Tracking and Tracing] system upstream towards the source". A tracking and tracing system can only be implemented where the business structure also allows it, i.e. where the coffee bags can be tracked back to the producer. This is the case in a country that counts with more advanced organization. In many countries, especially in Africa and Asia, this is completely impossible. This clearly shows that certain countries and exporters would benefit under the 4Cs system, if they ever would, leaving behind those who really need the support.

# The Worldwide Sustainable Coffee Fund

Example. The coffee business is full of examples of stories of non-compliance. The sad side about it is that the fraudulent organizations get away with it. For instance, Darboven, the well known German roaster who failed to fulfil contractual commitments, was condemned to a penalty by the DKV. Despite this official verdict, ten years later Darboven has not yet fulfilled its obligation. Furthermore it is surprising that DKV even allows that a representative of Darboven is elected to its board when the arbitration body of the same DKV pronounced the verdict. Not even the ECF has intervened when one of its largest members, the DKV, took up in its board a representative of a company that is blacklisted by the ECF. The DKV and the ECF being the driving force behind the 4Cs, the credibility and transparency of the 4Cs is therefore highly questionable since they even cannot respect their own decisions.

A further example of missing transparency is the programme Oil against Food. The missing control mechanisms and transparency in the 4Cs reveals clear parallels to Oil against Food. Since lessons have to be learnt, it is not permissible that the 4Cs goes on using the same loose control and missing the transparent approach that Oil for Food had.

Small holders. In your letter dated 14. February 2005 you write „a central question – in almost all commodity projects – is indeed how the small holders can be reached ... To all participants it is clear that the answer to this question will be decisive for the acceptance of the future code by the producers, consumers and NGOs”. Also Mr Vanhorick writes in his attached letter “Our only interest and goal is the common welfare ..., especially the farmers concerned.”

In what form does the 4Cs address the small holder? The 4Cs has set its focal point on the exporting operations. While this may be a cooperative of producers, in most cases it will be a privately owned company that may often even be a subsidiary of multinational trading companies. Since the bulk of the work lies on the exporters, they would also retain most of the additional revenue, if there is any. As indicated above, the execution of projects through the “purchasers” has its own major downsides. We therefore invite you to explain, how and with what measures the small holders will be reached by the 4Cs itself?

Small roasters. Medium sized and small roasters have not participated in the 4Cs, nor have they pronounced themselves to the proposal. Larger companies seek to access best coffees through direct involvement in the producing countries, putting at peril the procurement opportunity of the smaller roasters for the quality coffee they need. The 4Cs has offered to act as a “marriage broker” for different projects in the name of the smaller roasters; nevertheless the 4Cs would marry with the projects that suits them best and putting the smaller roasters in a competitive disadvantage versus the larger ones.

Transparency. Not only through the missing answers to the points raised in this letter, but also through the basic approach of the 4Cs (What is its main goal? What concrete measures does it apply to reach it? Who does what? Who contributes what?), the required transparency is missing. Without this transparency, the 4Cs and its participants will engage in conflicting actions (even involuntarily) that will result in confusion, criticism and turn out to be to their detriment. Therefore, it would be absolutely necessary to bring a much higher transparency into the 4Cs.

Structure of 4Cs. The concept of the 4Cs was started by a national association of the coffee industry, the DKV. It has been strongly supported by the government of that coffee consuming country (GTZ) and the continental grouping of the coffee industry (ECF). Although other institutions from all sectors of the coffee business, governments and NGOs have participated, the driver seat has always been



# The Worldwide Sustainable Coffee Fund

occupied by people and institutions who are thousands of miles away from those who have to implement the criteria of the code and who should benefit from it. In particular, the producers and their representatives have participated in the 4Cs process to a much lower share than their stake in the coffee business and in the topics of the proper 4Cs would require it. More often than not, the representatives from the producing countries did not have the backing of the producers as they were government officials or seeking to take advantage for their own business. We regard it as the 4Cs' task to spot the correct counterparts in the producing countries – a task which was not executed. It is therefore no wonder that the proposal of the 4Cs is quite one sided, neglecting many facets of the real needs of the producers and presented in an administratively burdensome manner. Many people, including ourselves, have pointed out this fact for more than a year now with very little to no effect. We have insisted on a complete reshaping of the concept which has not taken place. The 4Cs is prone to fail for the reasons explained above and we can only repeat our call to stop the 4Cs and put in place instead a programme that is based on the reality, driven by the thought of adding value to the ultimate consumer and built up from the bases of the business.

To exemplify how far away from reality the 4Cs concept is can be demonstrated by the fact that only after three and a half years of working on the code, the 4Cs became aware that a code of conduct actually existed in Brazil – the biggest producer of coffee. This confirms that the 4Cs was developed in a greenhouse separated from the real business. Further, the mention from a member of GTZ was particularly shocking who declared that “the 4C has been so far a great experience”. The matter is far too serious for focusing on allowing some people to have a great experience, whilst others continue to wait on improvements that would allow them to give a future to their children.

A further example is that throughout the elaboration of the code itself the only language spoken at the meeting was English. Unfortunately, most real producer representatives did not dispose of a sufficiently good enough command of the English language to comprehend the details and to express their real point of view. This has improved lately, but was missed in the ground work and therefore part of the reasons why the identification of the real needs could not flow into the 4Cs.

Urgency. The 4Cs have been discussed for more than 3 years and no coffee peasant has yet received the smallest benefit. Considerable resources have been used and the next steps for further discussion and dissemination will continue to consume time and financial resources. On the other hand, there are 25 million coffee farmers, 3.5 times the Swiss population, with the large majority being smallholders who continue to suffer from the depressed coffee prices of 2000 to 2004. Let alone the potential social consequences yet to come, how long do you want to have them waiting until the international community comes up with a workable solution?

International acceptance. For an international initiative on sustainability to be successful, the majority of the industry should ideally participate. However, the largest consuming nation, the USA, does not support the 4Cs as it is a scheme that opposes the free market movement. The Japanese industry has not pronounced itself in an official form to the 4Cs which can be interpreted as a note of caution. Without the participation of the US and Japanese industries the 4Cs will only create confusion as it will result in ‘one more’ of the certification labels.

Seco involvement. In our letter dated 31 January 2005 we have questioned the seco involvement in the 4Cs. Your justification for it has mainly relied on the fact that it is a multi-stakeholder approach that



# The Worldwide Sustainable Coffee Fund

involves all parties in the coffee business. As a side note, the ICO is also a multi-stakeholder organization where all parties meet regularly.

Further you argued that the seco had examined thoroughly the project and that all projects are generally submitted to an extensive analysis and double, careful examination. The content of the analysis and examination on the 4Cs has not been revealed and it is highly questionable how they arrived at a positive result. Who executed this examination? How did they arrive at the conclusion that the pros outweighed the contras? Please provide us a copy of this examination report.

International politicians have invited the Swiss federal government to increase their support for development aid up to 0,7 % of GDP. It is however not only a matter of the amount of money, but mostly about the quality of the development as measured by its efficiency. This is in line with the statements of Mr Peter Maurer, the Swiss Delegate to the UN, who claimed increased quality and efficiency in development aid. Long lasting efficiency in sustainable development can only be achieved if the programmes are built up from the ground; unfortunately this is not the case with 4Cs that represents a top-down approach.

For the next steps, we ask you to provide us and all interested parties with a report on the use of the financial contribution of seco to the 4Cs that clearly identifies that the targets set by seco for its participation in the 4Cs have been reached. Some of the objectives are those you have mentioned in your letter, such as reaching the smallholders, strengthening of the (small) producers and optimization of the coffee supply chain, the inclusion of the concept of added value as promised by Dr Uschi Eid and in line with the Swiss politic of free market. It also should include a clear description on the active involvement of seco, since you mentioned in your letter that 'we will accompany closely the project along its future implementation and put a careful eye on the aspects you mentioned such as transparency, meeting of goals and open dialogue".

Such report must be produced and be satisfactory prior to the potential extension of collaboration between seco and the 4Cs and any financial contribution related to it.

Yours sincerely,

Worldwide Sustainable Coffee Fund

Walter Zwald

Urs Küchler

Enclosures:

- Analysis of the Common Code
- Reply from MU of 4C
- Our subsequent response to the MU of 4C

Cc:

J.D. Gerber, seco / ICO, London / BMZ, Berlin / ECF, Amsterdam / CFC, Amsterdam / International Coffee Community