



Common Code for the Coffee Community

The Worldwide Sustainable Coffee Fund
Spissenstrasse 76
6045 Meggen
Schweiz

Monday, 01 August 2005

Dear Walter,

On behalf of the joint Management Unit of the 4C initiative, I herewith would like to react to the Analysis of the Common Code by the Worldwide Sustainable Coffee Fund.

As you know, since beginning of 2005 I am the Senior Advisor on the coffee trade and industry issues for the joint 4C Management Unit. The testing phase of 4C (2005-2006) is run as a public private partnership project. The public partner is GTZ, focussing especially on development policy aspects. The private partner is ECF, with ECF 4C group as executive partner focussing especially on business aspects.

We appreciate this exercise and would like to thank you for your endeavours. It is an imposing document, which we will most definitely use in our future work. Please note that we are not in competition with yours or any other program for sustainability. Our only interest and goal is the common welfare of our Coffee Community to the benefit of all involved, especially the farmers concerned.

Sofar, as you realise, 4C has not found its final form. We are not yet in an operational phase. The present testing phase is preparatory to that. It is up to the stakeholders through the steering committee to decide on the future form. The Steering Committee of the initiative is the governing body, deciding on all relevant issues in consensus and with the presence of coffee trade & industry, producer organizations from all over the coffee world and civil society. Allow me to go into some detail on various points of the Analysis, to update you on some points, sometimes to concur and sometimes to differ, but most certainly in a constructive sense.

The 4C initiative has never been designed as an answer to the coffee crisis or the golden solution for all issues of the coffee sector. But most definitely, the Common Code initiative is more than a code of conduct. It provides several services and tools that support farmers in their efforts to follow the path towards sustainability. Many studies and research activities stress that the optimization of the value chain is one of the main challenges for the sector. We believe that the combination of a measurement tool (the code of conduct and its verification system) with good agricultural and management practices can achieve a lot in this topic. With its network of projects and activities, the initiative also links the experiences of different production systems to enable synergies and provide learnings. We already see it as an interesting experience of the concept that actors such as Sara Lee, Kraft or Nestlé are cooperating with NGOs like Oxfam and producer organizations like Fedecocagua, FNC or VICOFA. In a pre-competitive manner, the 4C initiative provides an environment for continuous improvement and collaboration towards a common goal – a sustainable coffee sector.

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The Common Code initiative is also not a finished process, nor will it ever be. It will always be a process very much in development, open to improvement and flexible and adaptable according to new circumstances. The coffee world is not a static one and for that reason neither alone the code nor its sustainability practices will ever be entirely complete. We realise the complexity of the market and the need for “translation” into practical processes. A number of workshops are being held currently to support this translation. We welcome all input into this, bringing true sustainability into the coffee sector and not just a momentary relief.

Self-assessment. This will be very much a success once the system is operational because it is simple, cheap and can be used for all segments of the coffee chain. The 4C system is demand driven, so the self-assessment will be a logical reaction to the demand in the market. Based on this market conform demand participants cannot afford to bypass the need for self-assessment and the obligation of continuous improvement. This need is dictated by the need for all in the chain to remain competitive, efficient, and innovative and market directed. 4C is aimed at providing the necessary tools for this continuous improvement. Cheating on the system is cheating on oneself.

Verification. It is important to note that it is the process that will be monitored and verified. This is very different from the verification of individual parcels or the certification of individual participants. Process verification is a well-known process and can be executed at reasonable cost also by independent parties. Modern accounting techniques can very well be used guaranteeing credibility at the same time as saving costs.

Minimum unit. We do not agree with you that the exporter or the miller or the coop would not be able to take good care of the composition of the container. On the contrary, he already does so nowadays without specific 4C requirements, so the initiative is only referring to existing experiences and lifting those learnings up on the level of the sector. Besides all kinds of legal obligations he has his responsibilities towards his buyer and he is quite capable of taking this responsibility. That it will not always be easy to ascertain the exact source of his coffees will only induce him to satisfy himself that he is reasonably sure what his supplier has delivered him and improving on his own T & T system upstream towards the source. Both specialty coffees and niche approaches have proven that it is quite possible to do this tracking if seriously pursued. The T & T of the actual container will not form a serious problem. Independent electronic data collection can guarantee impartiality and form the basis of a reporting system, as already many business actors practice it.

Buying process. 4C does not directly deal with price itself. We believe that a price premium for differentiated goods is important to a process such as the 4C initiative. However, the market will decide on the price as it has always done. A fixed price would also be in conflict with anti-trust regulations of both, producing and consuming countries. Therefore, also representatives of producing countries have emphasized that a fixed price premium in a dynamic and continuous improvement concept according to the 4C would not be in the interest of the involved stakeholders. As products, production methods and processing procedures, also prices are part of the competitive character of the coffee market. Anyway, the 4C stresses that the **quality** of the coffee – **including its sustainability aspects** – will be reflected in the price. Of course this may well be reflected in a better differential, but if the aim of mainstream is reached, that will be the standard, and only sub grades will have a discount – as they have now. We are convinced that it is by far more effective to support higher efficiency and cost saving, access to markets, credit and risk management systems to give the producer an opening for better margins and thus a better position for a higher income. We therefore do not share your conclusion on page 8/9.

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Transparency. This is not really a problem since, once again, we are speaking about mainstream coffee. The market is the determining factor, however many participants there may be in the chain.

Increasing quantities. This is a matter of commitment. Not of purchasing tactics. 4C is open to everybody, not just the large participants. It is directed at forming the baseline with continuous improvement thus leading to a general higher standard time and again. Any coffee buying and selling implies a commercial risk. 4C does nothing to add to that. On the contrary, through offering the tools for better risk management, better access to markets and to information the commercial risks are more controllable for all parties involved.

Decision to participate. Again it is the market that decides. The system is open to any participant, both sellers and buyers who is interested in applying sustainability practices and measuring performance against the code matrix to meet its basic requirements.

Acceptance of added value. We basically agree with your point of view. We are, however, somewhat more optimistic in the current situation of the final consumer that his wishes reflect the 4C requirements and that – once available – demand for 4C compatible coffee will be strong and increasing all the time. We agree that a cost – benefit analysis is important during the testing phase, and it does so form part of our project reporting.

The code points a – e. We concur.

f. Diversification. As an initiative we are much in favour of diversification and encourage producers to diversify their production systems to achieve decreased vulnerability against the volatility of the coffee market. However, it is not in the scope of 4C to diversify coffee producing areas directly. It would bring 4C into conflict on a political level with governments of producing countries whose responsibility this is and with WTO. Nevertheless, among the tools, many forms of coffee-specific diversification are addressed as GAP and food crops as alternates to fertilisers. The basis for a better preparedness for the next crisis mostly lies in efficiency, better access to markets, risk management tools, information, better organisational forms and better business management – elements which are also addressed by 4C. As well, we appreciate the co-operation with a significant number of public actors such as development banks, development agencies and research institutions. Together with them, the initiative supports diversification efforts in individual approaches (e.g. in Vietnam), but linked to the sustainability concept of 4C and its measurement tool.

Testing the Code. Before actually being able to proceed with 4C projects and intensify cooperation with associated projects, the Rules for Participation have to be accepted by the Steering Committee and be submitted to anti-trust authorities, both in the EU and in the USA. We take due note of your suggestions and recommendations for inclusion in the pilot projects. Your remarks are welcome.

We do not agree with your remarks on acceptance. A multi stakeholder process is in nature complex, but acceptance within the profession, also political, has been satisfactory. The rolling out phase will have to prove whether sufficient parties will in practice embrace the 4C concept. Regional dissemination, information of trade and industry and of government representatives of various disciplines (f.i. agriculture, trade & commerce, foreign affairs) will be essential in that phase.

b. We do not concur with your views. Demand has shown a remarkable stable increase of 1,5% per annum over the past decades. The world coffee supply will have to match this. It is the pig cycle on the supply side, which is at the base of the high volatility. 4C cannot influence supply as such, but it can assist in bringing more gradual and stable developments. Access to credit on a commercial basis will allow producers to be less dependent on their immediate cash needs and will allow them to market their product in a more balanced way throughout the year. 4C as such is not a marketing

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system, nor does it promote coffee consumption per sé. There are other instruments for that like the positively coffee program and the health professionals information program.

Value creation. We do not very well understand your argumentation. Value creation seems a fair point but falls rather under capacity building and GAP. The 4C system addresses all the different approaches to create value. In addition, we feel that 4C with its continuous improvement may create a “lifting power” to encourage producers in their efforts to ask for certification under one of the well known certification schemes or further invest in high quality production if they are interested in a differentiation of their products.

Small holders. The whole 4C initiative has always included small holders and will continue to do so. There is no question at all of “driving them out of business”. In fact, we believe that making farming efficient through the application of good and sustainable practices is the main way to keep small holders competitive in the long term. 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. Better organisational forms and better management will assist small holders to obtain access to credit on a commercial basis and to direct funding of these investments thus improving their efficiency and resistance power to the next crisis. Any system, more geared to their specific needs would be an exclusive system, missing the mainstream element. However 4C can prepare those small holders for their next steps once they reach the base level of 4C. We are not competitive to any certification system such as organic or “rainforest”, but rather a useful preparation for that. The direct step towards certification under those schemes is often far too big and costly for the small holder. The option to go through a learning and improvement period for totally 6 years offers him a very good opening to the premium markets.

Conflict of interests. We do not see such a conflict. It would be short-sighted for the “purchasing participants” to let short term economic interests prevail over the long term need for a regular supply of a large variety of high quality coffees for the main stream market, - including the social and environmental dimension. It is quite simply a must for trade and industry to make sure of sustainability in their much diverse supply-markets.

Inclusion of all stakeholders. The 4C initiative is open for participation of all interested actors. Obviously, the governing body (the Steering Committee) can only consist of a limited number of participants because of organisational and administrative reasons. However, there are many ways to be active within the 4C concept: e.g. small and medium sized traders and roasters can participate in projects in combination or through their associations, like the current DKV project. There has been representation of those smaller companies also in some working groups and we always appreciate the discussion with small and medium sized firms, like we did with the Swiss Coffee Trade Association or during meetings of the national coffee associations. Once the Rules for Participation are in place the 4C management unit will intensify its role as “marriage broker” for different projects and will further approach smaller trade and industry and other stakeholders for common projects. The 4C management unit is in the process of setting up a support platform, a service institution, for capacity building and project support.

Transparency. There again the Rules for Participation are important. Once established, sharing of the results between the various projects will make the obtained knowledge available to all. It has been emphasized by all actors involved, that transparency, including free access to market information, will be one of the main values of 4C.

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Attitude. It has never been the intention to exclude anyone. We are open for dialogue and every input is welcome. It is not the 4C project as such that is important, it is the beneficial results for our coffee community, which are the paramount goal for the initiative. Every contribution is welcome there, such as your Analysis of the 4C Code Matrix. We agree on your remarks on updating our external communications and are working on that.

We will take on board your suggestion under 1. We do not exactly see the mechanism under 2. And why it should be preliminary to 3. We feel on the contrary that this testing phase will have to include at least the first steps of capacity building, a broad idea on a verification system and the first 4C containers available, next to the testing of the code itself. These steps take time and we will not over rush them but at a certain point during the next 1,5 year they will be addressed. We suppose it would be rather negative for the entire sector if we ask all actors involved in 4C to stop their capacity building activities and do not think that this would be in the interest of our partner, the producers!

I hope Walter, that you will consider this letter in a constructive way. We appreciate the big effort you took to write your analysis. I feel it merits the broad reply that I have given it. You and I know each other a very long time indeed, which brings the mutual trust to be able to listen to each other. We feel a good contact with your organisation could be of mutual benefit for us all.

Sincerely yours,

Joppe Vanhorick
Senior advisor 4C Management Unit.

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