

MISSION

The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together 76 exporting and importing countries to tackle the challenges facing the world coffee sector through international cooperation. It makes a practical contribution to the world coffee economy and to the improvement of living standards in developing countries by:

- Enabling government representatives to exchange views and coordinate coffee policies and priorities at regular high-level meetings.
- Encouraging a sustainable world coffee economy.
- Initiating coffee development projects to add value and improve marketing.
- Increasing world coffee consumption through innovative market development activities.
- Promoting the improvement of coffee quality.
- Working closely with the global coffee industry through a 16-strong Private Sector Consultative Board which tackles issues such as food safety.
- Ensuring transparency in the coffee market by providing objective and comprehensive information on the world coffee sector through statistics and economic studies.

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Front cover: Logo of the World Coffee Conference, Guatemala
 Back cover: Coffee seed germination in Colombia, courtesy of Sam Abell
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FOREWORD BY THE CHAIRMAN OF THE COUNCIL



Rodolfo Trampe Taubert
Chairman of the Council

The signal honour of presiding over the International Coffee Council as its Chairman during coffee year 2009/10 has proved to be one of the most significant experiences in my life, particularly because of the successful outcomes of the challenges I had to face, mainly towards the end of this period. I managed to meet these challenges with the constant guidance and commitment of the delegates of Member countries and the invaluable support of ICO staff. To all of them I extend my heartfelt thanks.

From the institutional viewpoint the first big challenge was the work involved for the ICO in holding a major event in Guatemala City in the context of the World Coffee Conference and the subsequent Session of the Council and its subsidiary committees. In the event, all expectations were surpassed and the Conference was attended by a very large number of participants from all over the world. Interest in building a sustainable coffee sector in all its aspects no doubt contributed to this large attendance. I would like to reiterate my appreciation and thanks to the President of the Republic of Guatemala, H.E. Mr Álvaro Colom Caballeros, to the National Coffee Association of Guatemala (Anacafé), and to all those who helped to organize the Conference; the impeccable organization and hospitality they offered us was definitely a determining factor in the success of the event. It is now up to our Organization to put into effect the conclusions of this event and to incorporate them into ICO strategies and programmes of activities.

Another challenge, particularly sad for the Organization, arose when Néstor Osorio tendered his resignation from the post of Executive Director of the ICO, which he had held since 2002. As a result, most of the activities carried out during the 105th Council Session centred on consultations, working meetings and drafting sessions to enable the Council to find an appropriate formula for the designation of an Executive Director a.i., as well as to establish the procedures and terms of reference for the appointment of a new Executive Director in September 2011. Many delegations paid warm tribute to Néstor Osorio and expressed their thanks for his invaluable contributions to the Organization. On behalf of the 76 Member countries, I had the privilege of officially bidding farewell to Néstor Osorio, presenting him with a commemorative plaque recording his successful career and wishing him every success in the noble task he has been asked to perform for his country as Colombian Ambassador to the UN.

The Expert Panel on Coffee Sector Finance, which also met during the 105th Council Session, under the excellent chairmanship of David Brooks, was a complete success and highlighted the relevance of this subject, which is one of the basic features in the provisions of the International Coffee Agreement 2007. With regard to this Agreement, I am sure that countries which have not yet ratified the Agreement will redouble their efforts and that we will soon meet the required conditions for the entry into force of this valuable instrument of international cooperation for development.

On the international coffee scene markets were characterized by a significant rise in coffee prices. As reliable information confirming the precarious balance between world supply and demand was received, prices began to rise steeply, exceeding all expectations, including those of even the most optimistic analysts. Moreover, price differentials, particularly in the case of washed coffees, recorded unprecedented increases. There was also mounting pressure to meet growing domestic demand in a number of producing countries. These factors complicated activities along the entire coffee production chain, but mainly reflected the need to build more solid relations between supply chains worldwide while developing more sophisticated and precise risk management strategies. Since the situation of world stock levels leaves little room for manoeuvre for the coffee industry as a whole, we are obliged to reflect on the need to work together in order to avoid factors which, in the past, have proved to be a prelude to imbalances and led to prolonged and difficult price crises.

Another factor that has complicated the situation of coffee is the effect of climate change on the volume, quality and seasonality of coffee supplies. The distortion of historical rainfall patterns, variations in air temperatures, the unprecedented presence of pests and diseases in high-altitude regions, are among the consequences of climate change that will pose a serious threat to the future of coffee production if we fail to innovate production techniques and make a positive impact on other production activities. With this in mind, the Council decided to make a submission to the United Nations Framework Convention on Climate Change (UNFCCC) with a view to seeking recognition for the coffee sector, collaborating on finding effective responses to the impact of climate change, and ensuring that coffee will be taken into account in the development of strategies and agreements on these natural phenomena. We are now more than ever facing the challenge of working in our respective countries to make coffee growing an activity that can use sustainable practices to lead global strategy on climate change.

On the whole I am optimistic about the future of coffee. Nevertheless, we still need great efforts on the part of the coffee community to ensure that our coffee sectors are strengthened and that market conditions are reflected in an equitable distribution of income among all members of the production chain. For this purpose the work of the ICO is essential to catalyse these efforts, for example in finding more efficient and transparent market information mechanisms, advising on the development of responsible production strategies and policies, developing marketing and project financing activities, etc.

Finally, I would like to offer my congratulations and unconditional support to Ewald Wermuth as the new Chairman of the Council for coffee year 2010/11. I am sure that his abilities and experience will contribute to a successful term of office in carrying out his functions.

Rodolfo Trampe Taubert

Chairman of the International Coffee Council 2009/10

Executive Coordinator,

Asociación Mexicana de la Cadena Productiva del Café (AMECAFÉ)

OVERVIEW BY THE EXECUTIVE DIRECTOR



Néstor Osorio
Executive Director

A highlight of the year for the Organization was undoubtedly the World Coffee Conference, which was held for the third time from 26 to 28 February 2010 in Guatemala City, Guatemala. An audience of over 1,400 coffee growers and representatives from government, the private sector, non-governmental organizations and international agencies came together to focus on the theme ‘Coffee for the future: Towards a sustainable coffee sector’. The world coffee market has changed considerably since the previous two Conferences, and the challenge today is to meet future consumption needs while ensuring a balance between supply and demand. An impressive array of international experts presented the key issues facing the world coffee sector, from seed to cup.

In general, presenters painted an optimistic picture of the demand for coffee, which is expected to continue growing at a healthy rate, despite competition from other beverages. In contrast, the outlook for the producing sector is a source of concern. Coffee growers face many difficulties, in areas such as: research; capacity-building; implementation of good agricultural practices; diversification; finance and risk management; value addition; market transparency; environmental sustainability, especially as regards climate change; and social sustainability. All these factors, combined with the relatively low prices experienced in most of the last decade, have reduced the attractiveness of investing in new plantings, essential to meet the growth in demand forecast for the future. I urge all those who are interested in coffee to explore in depth the findings of this landmark event, which has provided the ICO with ample material on which to focus its future activities. I wish especially to thank the Government of Guatemala, whose President (H.E. Mr Álvaro Colom Caballeros) chaired the Conference, and Anacafé for their gracious hospitality and impeccable organization.

Meanwhile, steady progress has been made towards the entry into force of the 2007 Agreement. Only a few countries have yet to finalize their membership requirements and I am confident that these will be completed in the near future. The ICO will then be able to operate under a statute that has been updated to take into account the latest trends in the international commodity sector.

The evolution of the coffee market in 2009/10 reinforced concerns about the future of world production raised in the Conference. The ICO composite indicator price rose from 111.80 US cents per lb to 134.41, an increase of 20.2%. Even more impressive was the change from September 2009, when the monthly average of the composite indicator was 116.40 US cents per lb, to September 2010, when this price reached 163.61, a rise of just over 40%. The increase in September was not evenly distributed across all groups of coffee, however: the same calculation shows rises of 40% for Colombian Milds, 50% for Other Milds and 51% for Brazilian Naturals, but only 10% for Robustas.

These results show clearly that changes in the price of coffee on world markets have been largely determined by a scarcity in the availability of Arabica coffee.

The primary cause of this scarcity has been two successive below average crops in Colombia due to heavy rains, reduced use of fertilizers because of their high prices, and increased incidence of pests and diseases. The Colombian crop is expected to improve in 2010/11, but is still unlikely to reach the previous average of around 12.5 million bags.

Other producing countries have been unable to off-set the reduction in the availability of Colombian coffee, as shown by the fall in world exports from 97.6 million bags in 2008/09 to 93.2 million in 2009/10, a drop of 4.5%. The tight supply-demand balance has been exacerbated by the low level of stocks in producing countries, which are estimated to be around 12 million bags at the beginning of the 2010/11 crop year, the lowest in recorded history.

At the same time, data on consumption show a fall of 1.2% from 2008 to 2009, primarily as a result of the global economic crisis, although there is good reason to think that this decline is overstated because of methodological reasons. As the world economy recovers, the growth rate of coffee consumption is expected to return to the levels of between 2.0 and 2.5% per annum that prevailed during most of the previous decade.

I would like to express my sincere gratitude to the staff of the Organization for their dedication and support throughout my term of office, which have been instrumental to the ICO's relevance and success.

I would also like to thank the Chairman of the Council and the Private Sector Consultative Board, Rodolfo Trampe of Mexico, and the Chairperson of the Executive Board, Ina Grohmann of Germany. Their hard work and dedication helped our meetings to run smoothly and contributed to the achievement of substantive results.

Finally, it was with deep regret that I communicated to the International Coffee Council my decision to leave the ICO with effect from 1 November 2010. I have been honoured to be nominated as the Ambassador of Colombia to the United Nations, a mission of great importance for my country that I could not fail to accept. My eight and a half years as Executive Director served only to confirm my belief that the ICO plays a crucial role in the development of this beverage that is beloved by millions all over the world. I wish the Organization every success in the future and hope that I will still be able to contribute to the wonderful world of coffee in my new role.

Néstor Osorio
Executive Director
International Coffee Organization

TRIBUTE TO THE EXECUTIVE DIRECTOR

At its 105th Session in September 2010, the Council accepted the resignation of the Executive Director, Néstor Osorio, with effect from 1 November 2010 to take up the post of Ambassador of Colombia to the United Nations in New York.

The representatives of the Member countries of the International Coffee Organization paid a warm tribute to Néstor Osorio on accepting his resignation. Following eight and a half years (since March 2002) of his term of office as Executive Director, the delegates lauded Néstor Osorio's dedication and competence in handling worldwide coffee affairs and the way in which he had contributed to the recovery of the prestige and presence of the ICO on the world stage, defending the interests of all links of the coffee value chain and promoting the coffee industry and consumption.

The delegates acknowledged Néstor Osorio's contribution to the reshaping of coffee policies in favour of the promotion of consumption, quality improvement and the raising of around US\$100 million for carrying out specific projects in producing countries in Africa, Asia and Latin America, as well as the modernization of coffee institutions under the ICA 2007 with the broad participation of producing and consuming countries.

The diplomatic and coffee related career of Néstor Osorio is well known. He was the delegate of Colombia to the ICO for 16 years (1978 – 1994) and, before becoming Executive Director of the ICO, he was the first Permanent Ambassador of Colombia to the World Trade Organization in Geneva (1994 – 2000) and Government Advisor on coffee matters.

Néstor Osorio received from the Chairman of the Council, Rodolfo Trampe, a plaque reading:

'The International Coffee Council at its 105th Session grants this token of APPRECIATION to Dr Néstor Osorio Londoño for his distinguished work as Executive Director of the International Coffee Organization and for the leadership with which he maintained and strengthened unity and cooperation among Member countries with the aim of achieving a sustainable coffee economy.'



Néstor Osorio speaking at the World Coffee Conference, Guatemala

WORLD COFFEE MARKET

Prices

During coffee year 2009/10 coffee prices, particularly in the case of Arabicas, rose sharply, with the annual average of the ICO composite indicator price at 134.41 US cents per lb in comparison with 111.80 US cents per lb in 2008/09, representing an increase of 20.2% despite the fall in Robusta prices (Table 1). This average for coffee year 2009/10 is the highest recorded since coffee year 1994/95, when it was 152.19 US cents per lb. The rise in prices was driven by concerns regarding supplies of Arabica from a number of exporting countries affected by lower production.

Table 1: ICO indicator and futures market prices
Coffee year averages 1994/95 to 2009/2010

	ICO Composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
1994/95	152.19	174.61	167.36	159.34	137.02	163.16	130.71
1995/96	106.39	130.23	121.66	123.92	91.10	112.45	83.01
1996/97	126.94	188.05	177.38	153.55	76.50	151.95	71.75
1997/98	115.23	155.61	148.72	137.15	81.72	136.38	76.00
1998/99	88.53	115.61	104.85	88.97	72.21	105.32	68.58
1999/00	72.86	112.66	96.88	86.61	48.83	103.81	46.63
2000/01	47.84	77.05	65.81	57.53	29.88	66.24	27.27
2001/02	45.46	63.74	59.21	43.72	26.85	52.36	21.83
2002/03	52.17	65.89	64.89	48.94	37.23	65.89	34.56
2003/04	57.77	74.41	73.51	62.07	36.37	73.24	33.16
2004/05	85.30	112.29	111.22	98.22	46.05	108.03	42.72
2005/06	91.44	113.04	110.84	100.86	61.45	108.17	54.61
2006/07	104.24	122.08	120.08	108.35	82.73	118.70	74.71
2007/08	126.67	145.79	142.98	130.44	106.36	140.37	98.28
2008/09	111.80	164.41	135.46	110.16	78.68	122.16	71.43
2009/10	134.41	209.84	176.43	138.13	73.86	149.06	66.74
% change 2008/09 to 2009/10	20.2	27.6	30.2	25.4	-6.1	22.0	-6.6

In US cents per lb

*Average of 2nd and 3rd positions

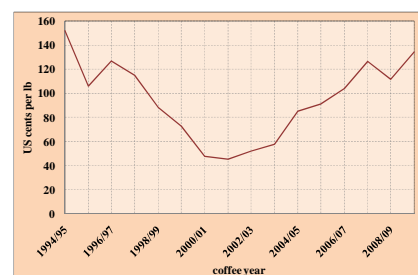
As a result of the surge in Arabica prices, and more particularly those of Colombian Milds, the differentials between prices of this group and those of Robustas widened considerably (Table 2). The differential between prices of Colombian Milds and those of Other Milds also widened.

Table 2: Price differentials
Coffee year averages 1994/95 to 2009/2010

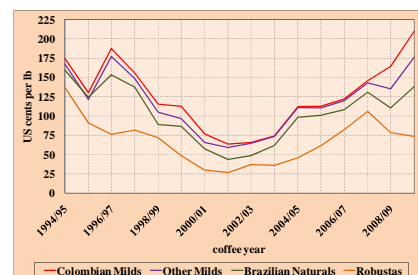
	Colombian Milds - Other Milds	Colombian Milds - Brazilian Naturals	Colombian Milds - Robustas	Other Milds - Brazilian Naturals	Other Milds - Robustas	Brazilian Naturals - Robustas	New York - London
1994/95	7.24	15.27	37.59	8.02	30.34	22.32	32.44
1995/96	8.57	6.31	39.13	-2.26	30.56	32.82	29.45
1996/97	10.66	34.50	111.55	23.83	100.88	77.05	80.21
1997/98	6.89	18.47	73.89	11.58	67.00	55.42	60.38
1998/99	10.76	26.63	43.40	15.88	32.64	16.76	36.74
1999/00	15.78	26.05	63.83	10.27	48.05	37.78	57.18
2000/01	11.24	19.52	47.17	8.28	35.94	27.65	38.97
2001/02	4.54	20.03	36.90	15.49	32.36	16.87	30.53
2002/03	1.00	16.95	28.67	15.95	27.67	11.72	31.33
2003/04	0.90	12.33	38.04	11.43	37.13	25.70	40.08
2004/05	1.07	14.07	66.24	13.01	65.18	52.17	65.31
2005/06	2.21	12.18	51.59	9.97	49.39	39.41	53.57
2006/07	1.99	13.73	39.35	11.73	37.36	25.62	43.98
2007/08	2.81	15.35	39.43	12.54	36.62	24.08	42.09
2008/09	28.95	54.25	85.74	25.30	56.79	31.49	50.72
2009/10	33.41	71.71	135.98	38.30	102.56	64.26	82.32
% change 2008/09 to 2009/10	15.4	32.2	58.6	51.4	80.6	104.1	62.3

In US cents per lb

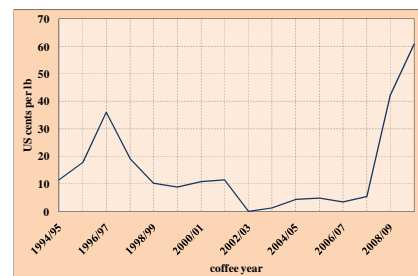
ICO composite indicator price
Annual averages:
Coffee years 1994/95 to 2009/10



Group indicator prices
Coffee years 1994/95 to 2009/10

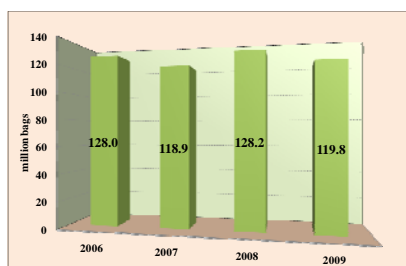


Differential between the Colombian Milds group indicator and the average of the 2nd and 3rd positions of the New York futures market
Coffee years 1994/95 to 2009/10

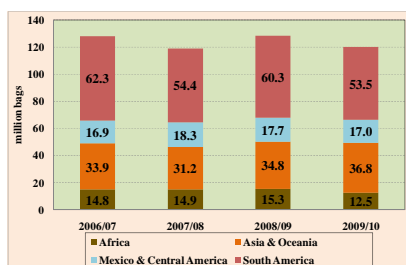


Market fundamentals

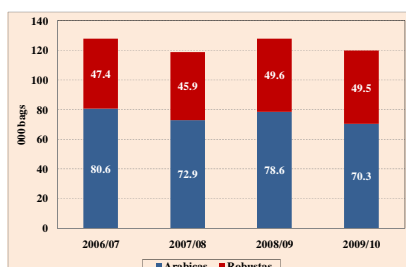
World production
Crop years commencing 2006 to 2009



World production by region
Crop years commencing 2006 to 2009



World production by type
Crop years commencing 2006 to 2009



Developments in market fundamentals during coffee year 2009/10 contributed significantly to maintaining this firmness in prices. The world supply situation has been affected by a number of difficulties, including the low level of world stocks, lower production in some Central American countries and Colombia, and climatic problems in several countries. In addition, high costs of fertilizers and other production factors have contributed to a decline in the use of these inputs in several producing countries, not only affecting the application of good farming practices but also the resistance of coffee trees to certain diseases. During this period, the buoyancy of world consumption continued to support high prices.

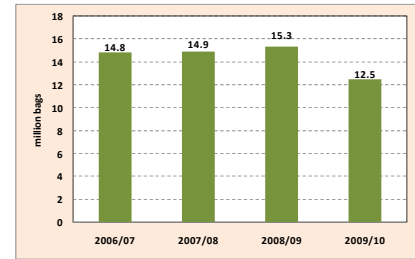
Production in crop year 2009/10 fell by 6.5%, totalling 119.8 million bags compared to 128.2 million bags in the previous crop year (Table 3). Production was lower not only in Brazil, where crop year 2009/10 was a low production year in the biennial cycle of Arabica production, but also in a number of other countries, particularly in Africa, Mexico and Central America, and in Colombia. Colombian production has not managed to recover its normal levels since the fall recorded in 2008/09 mainly on account of climatic problems and the outbreak of disease in several production areas. Total Arabica production has fallen by 10.6% and Robusta production is virtually unchanged, contributing to the tight supply situation in coffee year 2009/10, given that levels of opening stocks in producing countries are also low.

Table 3: Total production by region, group and by type
Crop years 2006/07 to 2009/2010

	2006/07	2007/08	2008/09	2009/10
World total	127 994	118 867	128 163	119 834
Africa	14 826	14 899	15 334	12 525
Asia & Oceania	33 936	31 233	34 832	36 772
Mexico & Central America	16 936	18 306	17 692	17 016
South America	62 295	54 429	60 305	53 520
Colombian Milds	13 876	13 674	9 964	9 002
Other Milds	27 920	27 606	27 298	26 444
Brazilian Naturals	38 844	31 646	41 323	34 843
Robustas	47 354	45 942	49 577	49 545
Arabicas	80 640	72 925	78 586	70 289
Robustas	47 354	45 942	49 577	49 545
Percentage share				
Africa	11.6%	12.5%	12.0%	10.5%
Asia & Oceania	26.5%	26.3%	27.2%	30.7%
Mexico & Central America	13.2%	15.4%	13.8%	14.2%
South America	48.7%	45.8%	47.1%	44.7%
Colombian Milds	10.8%	11.5%	7.8%	7.5%
Other Milds	21.8%	23.2%	21.3%	22.1%
Brazilian Naturals	30.3%	26.6%	32.2%	29.1%
Robustas	37.0%	38.6%	38.7%	41.3%
Arabicas	63.0%	61.4%	61.3%	58.7%
Robustas	37.0%	38.6%	38.7%	41.3%

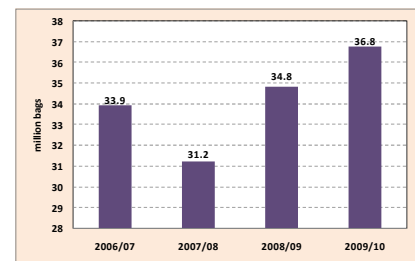
Following a slight recovery in crop year 2008/09 production in **Africa** fell once more, totalling 12.5 million bags in 2009/10 compared to 15.3 million, a fall of 18.3%. Apart from Cameroon, where production remains relatively stable, all other African countries recorded falls in production. Africa's share of world production fell accordingly, and was down by 1.5% from 12% to 10.5% compared to crop year 2008/09.

Africa



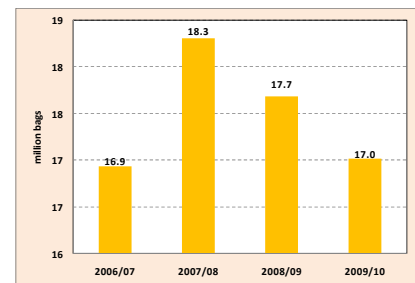
In **Asia and Oceania** production increased by 5.6% compared to the previous year from 34.8 million bags to 36.8 million bags in 2009/10. The region's share of world production increased by 3.5% from 27.2% in 2008/09 to 30.7% in 2009/10. This increase is attributable to production increases in India and Indonesia.

Asia/Oceania



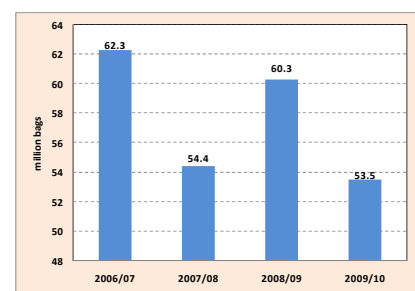
In **Mexico and Central America** production fell from 17.7 million bags in 2008/09 to 17 million bags in 2009/10, representing a fall of 3.8%. Despite this fall, the region's share of world production increased slightly from 13.8% to 14.2% (+0.42%).

Mexico and Central America



Total production in **South America** was down by 11.3% from 60.3 million bags in 2008/09 to 53.5 million bags in 2009/10. This sharp fall is attributable to a further reduction in Colombian production during crop year 2009/10 and to the biennial cycle of low Arabica production in Brazil. The region's share of world production fell to 44.7% compared to 47.1% in 2008/09.

South America



In terms of types of coffee, production of Arabicas fell by 10.6% from 78.6 million bags in 2008/09 to 70.3 million bags, reducing their share of total coffee production from 61.3% to 58.7%. The share of Robustas increased from 38.7% in 2008/09 to 41.3% in 2009/10 despite a slight fall in production.

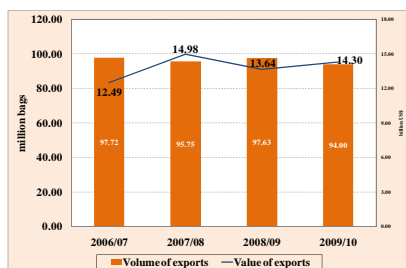
Stocks

The tight supply situation exerted considerable pressure on world stocks during coffee year 2009/10 given the need to meet demand requirements. Opening stocks in exporting countries fell below 12 million bags, the lowest level recorded in many years. The volume of stocks held in importing countries was estimated at 19.2 million bags at the end of June 2010.

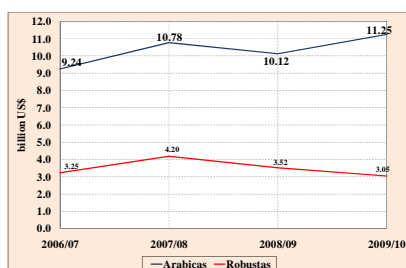
Exports

The slight increases in exports by the Other Milds (+3.1%) and the Brazilian Naturals (+0.6%) groups were offset by a sharp drop in exports by the Colombian Milds which fell 18% from 10 million bags in 2008/09 to 8.2 million bags in 2009/10. Robustas exports fell 7.7% from 35.2 million bags in 2008/09 to 32.5 million bags in 2009/10. Despite the fall in the volume of exports in coffee year 2009/10 to 94 million bags from 97.6 million bags in 2008/09, the total value for coffee year 2009/10 is estimated at US\$14.3 billion compared with US\$13.6 billion in 2008/09, an increase of just under 5% (Table 4).

Volume and value of exports
Coffee years 2006/07 to 2009/10



Value of exports by type
Coffee years 2006/07 to 2009/10



World consumption
Coffee years 2006/07 to 2009/10

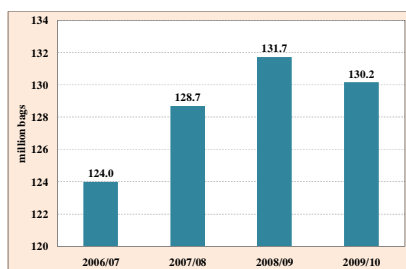


Table 4: Volume and value of exports
Coffee years 2006/07 to 2009/10

Coffee year	2006/07	2007/08	2008/09	2009/10	% change from 2008/09 to 2009/10
	Volume (million bags)				
Colombian Milds	12.51	12.71	10.02	8.22	-18.0%
Other Milds	21.46	22.16	21.38	22.05	3.1%
Brazilian Naturals	29.80	27.26	31.03	31.22	0.6%
Robustas	33.94	33.62	35.21	32.50	-7.7%
Total	97.72	95.75	97.63	94.00	-3.7%
	Value (billion US\$)				
Colombian Milds	2.02	2.43	2.00	2.16	8.1%
Other Milds	3.20	3.91	3.61	3.96	9.8%
Brazilian Naturals	4.03	4.44	4.51	5.13	13.6%
Robustas	3.25	4.20	3.52	3.05	-13.4%
Total	12.49	14.98	13.64	14.30	4.8%
	Volume (million bags)				
Arabicas	63.78	62.13	62.43	61.50	-1.5%
Robustas	33.94	33.62	35.21	32.50	-7.7%
Total	97.72	95.75	97.63	94.00	-3.7%
	Value (billion US\$)				
Arabicas	9.24	10.78	10.12	11.25	11.2%
Robustas	3.25	4.20	3.52	3.05	-13.4%
Total	12.49	14.98	13.64	14.30	4.8%

Consumption

Although world consumption fell slightly in 2009/10 from 131.7 to 130.2 million bags as a result of the world economic crisis, prospects for a return to growth are promising. The buoyancy in world consumption is supported by the increased domestic consumption of exporting countries and the significant growth of consumption in emerging economies.

Conclusion and prospects

The resilience of world consumption and low production levels in several major producing countries resulting from adverse weather conditions and high costs of production have helped to support the firmness of the market, particularly in the case of Arabicas. Stocks are at low levels both in exporting and importing countries since they have been drawn down considerably to offset reductions in supply. Therefore, despite the expectation of a high level of world production in crop year 2010/11, it is highly likely that the market will continue to be extremely jittery and tense given the negligible volume of world stocks and the precarious balance between supply and demand.

INTERNATIONAL COFFEE AGREEMENT 2007

Progress on membership

As at 30 September 2010, the 2007 Agreement was close to entry into force, with 47 signatory Governments (41 Exporting and 6 Importing). Of these, 33 Governments have completed all membership procedures by depositing instruments of ratification, acceptance or approval, or notifications of provisional application. Taking into account the European Union with 27 member States, some 74 Governments are now represented under the 2007 Agreement. Importing Governments with 92.8% of the votes of importing Members have completed all membership requirements; while in the case of Exporting Governments, 28 countries with 60.9% of votes of exporting Members have completed all procedures and a further 13 countries with 35.3% of votes have signed the Agreement.

Three new Members under the 2007 Agreement, Liberia, Tunisia and Yemen, deposited instruments of ratification during the year. Liberia and Yemen (with annual production of 6,000 and 100,000 60-kg bags respectively) will be classified as exporting countries, and Tunisia (with annual consumption of around 235,000 60-kg bags) will become an importing Member.

In his capacity as Chief Administrative Officer of the Depositary for the ICA 2007, the Executive Director issued Depositary Notifications advising Members of the following 16 actions:

Deposit of instruments (13): Central African Republic, Costa Rica, Ethiopia, Honduras, Liberia, Mexico, Norway, Papua New Guinea, Tanzania, Togo, Tunisia, Uganda, Yemen

Signatures (3): Norway, Paraguay, Tunisia

At its 105th Session in September 2010, the Council approved Resolutions 445 and 446 extending the deadlines for signature of the 2007 Agreement and deposit of instruments for a further year until 28 September 2011. It also approved Resolution 444 which extended the 2001 Agreement for a further year, with provision for the 2007 Agreement to enter into force as soon as the conditions for this are met.

In July 2010, the President-elect of Colombia, Juan Manuel Santos, a former ICO delegate for his country from 1970 to 1980, reiterated his Government's support for the Organization, highlighting its role as a global forum for consultations on coffee, defending the interests of producers and cooperation with consumers.

The following representatives of the Brazilian Government also reaffirmed the commitment of their Government to the successful conclusion of the ratification process for the ICA 2007 and the work of the ICO in the world coffee economy: the new Permanent Representative to the ICO, Ambassador Marcos Gama; the Secretary of Production and Agroenergy, Manoel Bertone and the Head of the Coffee Department of the Ministry of Agriculture, Livestock and Food Supply, Robério Oliveira Silva.

16 Depositary actions



Visit by President-elect of Colombia

Approval of strategic documents

Revisions to Rules on Indicator Prices

Growths of coffee Physicals market in the USA

Group	Growth of coffee
Colombian Mild Arabicas	Colombian Excelso UGQ screen size 14
Other Mild Arabicas	Costa Rica Hard Bean
	Guatemala Prime Washed
	Honduras High Grown
	Mexico Prime Washed
Brazilian & Other Natural Arabicas	Brasil Santos 3/4 screen size 14/16
Robustas	Indonesia EK Grade 4
	Uganda Standard
	Vietnam Grade 2

Growths of coffee Physicals market in Germany

Group	Growth of coffee
Colombian Mild Arabicas	Colombian Excelso European preparation screen size 15
Other Mild Arabicas	El Salvador Strictly High Grown
	Guatemala Hard Bean
	Honduras High Grown European preparation
Brazilian & Other Natural Arabicas	Brasil Santos 2/3 screen size 17/18
Robustas	Vietnam Grade 2

Growths of coffee Physicals market in France

Group	Growth of coffee
Colombian Mild Arabicas	Colombian Excelso European preparation screen size 15
Other Mild Arabicas	Honduras High Grown European preparation
Brazilian & Other Natural Arabicas	Brasil Santos 3/4 screen size 14/16
Robustas	Côte d'Ivoire Grade 2
	Indonesia EK Grade 4
	Uganda Standard
	Vietnam Grade 2

Important strategic documents approved by the Council during the year included a development strategy for coffee, a strategic action plan, terms of reference for the Consultative Forum on Coffee Sector Finance, and a revision to the Rules on Indicator Prices (see new specifications on the left hand side). All these documents will take effect upon the entry into force of the 2007 Agreement.

Signatories to the ICA 2007 as at 30 September 2010

Exporting Governments		Importing Governments	
Angola*	Indonesia*	European Union*	<i>Poland</i>
Benin	Kenya*	<i>Austria</i>	<i>Portugal</i>
Brazil	Liberia*	<i>Belgium</i>	<i>Romania</i>
Burundi*	Madagascar	<i>Bulgaria</i>	<i>Slovakia</i>
Cameroon	Malawi	<i>Cyprus</i>	<i>Slovenia</i>
Central African Republic*	Mexico*	<i>Czech Republic</i>	<i>Spain</i>
Colombia*	Nicaragua*	<i>Denmark</i>	<i>Sweden</i>
Congo, Dem. Rep	Nigeria	<i>Estonia</i>	<i>United Kingdom</i>
Costa Rica*	Panama*	<i>Finland</i>	Norway
Côte d'Ivoire*	Papua New Guinea*	<i>France</i>	Switzerland*
Cuba*	Paraguay	<i>Germany</i>	Tunisia*
Ecuador*	Rwanda	<i>Greece</i>	Turkey
El Salvador*	Tanzania*	<i>Hungary</i>	USA*
Ethiopia*	Thailand*	<i>Ireland</i>	
Gabon*	Timor-Leste*	<i>Italy</i>	
Ghana*	Togo*	<i>Latvia</i>	
Guatemala	Uganda*	<i>Lithuania</i>	
Guinea	Vietnam*	<i>Luxembourg</i>	
Honduras*	Yemen*	<i>Malta</i>	
India*	Zambia	<i>Netherlands</i>	
	Zimbabwe		

* Signatories which had completed membership procedures by 30 September 2010

WORLD COFFEE CONFERENCE

World Coffee Conference 2010

The ICO World Coffee Conference 2010 took place in Guatemala from 26 to 28 February 2010, chaired by the President of Guatemala, H.E. Mr Álvaro Colom Caballeros. It brought together over 1,400 coffee growers and representatives from government, the private sector and international agencies from all over the world. The theme was ‘Coffee for the future: Towards a sustainable coffee sector’ and over 30 high-level speakers spoke on issues ranging from changes and trends in world supply and demand to environmental and social sustainability. The preliminary conclusions of the Conference were presented at the closing ceremony on 28 February 2010 and the Chairman of Anacafé presented a final report to the Council in September 2010. Further details of speakers and specific topics are given below.

SPEAKERS AND TOPICS

Key participants in the Opening and Closing Ceremonies:

President of Guatemala, Chairman, World Coffee Conference: H.E. Mr Álvaro Colom Caballeros, **President of El Salvador:** H.E. Mr Carlos Mauricio Funes, **President of Honduras:** H.E. Mr Porfirio Lobo, **Secretary-General, UNCTAD:** Supachai Panitchpakdi, **Managing Director, Common Fund for Commodities:** H.E. Mr Ali Mchumo, **President, Guatemalan National Coffee Association:** Ricardo Villanueva; **Chairman, International Coffee Council:** Rodolfo Trampe, **Executive Director, ICO:** Néstor Osorio.

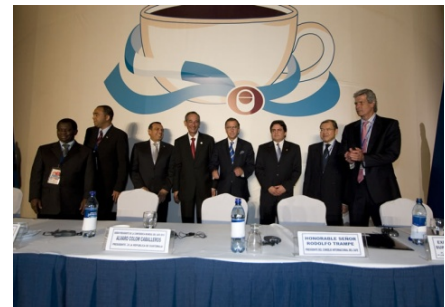
Session 1: Economic Sustainability: the Economics of Production

World production: changes and trends – Moderator: Christian Rasch Topke, Chairman of the World Coffee Conference 2010 Organizing Committee, Guatemalan National Coffee Association; **African coffee in crisis – the way forward:** Kwaku Owusu Baah, Director of Economic Studies, InterAfrican Coffee Organisation (IACO); **Structural analysis of Brazilian coffee growing – crisis and achievements:** Manoel Vicente Fernandes Bertone, National Secretary for Production and Agroenergy, Ministry of Agriculture, Livestock and Food Supply (MAPA), Brazil; **Outlook for Colombian coffee production:** Luis Genaro Muñoz, General Manager, National Federation of Coffee Growers of Colombia; **Central America in the coffee world:** Max Quirin, Specialty Coffee Association of America (SCAA) Board Member and Anacafé’s representative to SCAA International Relations Council; **Vietnam – sustainable coffee development:** Bui Ba Bong, Deputy Minister, Ministry for Agriculture and Rural Development, Vietnam; **Vietnam coffee sector – adjustment facing crisis:** Dang Kim Son, Director-General, Institute of Policy and Strategy for Agricultural and Rural Development (IPSARD), Ministry for Agriculture and Rural Development, Vietnam.

Production costs and constraints – Moderator: Rodolfo Trampe, Executive Coordinator, Asociación Mexicana de la Cadena Productiva del Café; **The sustainability of harvesting strategies:** Carlos Brando, Director, P&A International Marketing, Brazil; **East African specialty coffee: challenges and opportunities for East African farmers:** David Browning, Director, TechnoServe.



President Álvaro Colom



Inauguration



Over 1,400 participants



Supachai Panitchpakdi
Secretary-General, UNCTAD



Ambassador Ali Mchumo
Managing Director
Common Fund for Commodities



Christian Rasch Topke
Chairman of the Organizing Committee
of the World Coffee Conference



Sunalini Menon
Coffeelab Private Ltd., India



Krishna Rau
Chairman of the Coffee Board of India

Session 2: Economic Sustainability: the Economics of Demand

World consumption: changes and trends – Moderator: Max Schnellmann, Counsellor (Economic Affairs, Commodities) Embassy of Switzerland, London; **Driving sustainability for the mainstream coffee sector:** Dantes Hurtado, President, Coffee and Tea Brazil, Sara Lee Brazil; **Current state of coffee industry in Russia and CIS countries and how current economic situation, state of world green coffee market and modern world industry trends influence its future:** Aleksandr Malchik, Chairman of the Board, Organization of Coffee Manufacturers in Russia and President and CEA, Montana Coffee Holding Ltd.; **India – An emerging consumption story:** V.G. Siddhartha, Chairman, Café Coffee Day; **Coffee market trends in the USA:** Samuel Nahmias, Executive Vice-President/Chief Operations Officer, STUDYLOGIC; **Development of the Japanese market and outlook for neighbouring country markets (Korea, Taiwan and China):** Keiji Ohta, Chairman, All Japan Coffee Association.

Development of markets for differentiated coffee – Moderator: Michael Wheeler, Executive Director, Speciality Coffee Association of Europe (SCAE), Overseas Representative for the Papua New Guinea Coffee Industry Corporation; **Developing sustainable specialty coffee markets 2010 and beyond:** Ric Rhinehart, CEO, Specialty Coffee Association of America (SCAA), USA; **Differentiation: The markets for quality, certified, and origin-identified coffees:** Daniele Giovannucci, Co-Founder, Committee on Sustainability Assessment (COSA); **Strategy for adding value to Colombian coffee:** Luis Fernando Samper, Intellectual Property Director, National Federation of Coffee Growers of Colombia.

Outlook for supply and demand – Moderator: Oscar L. Schaps, Managing Director, Hencorp Futures, LC; **Trends in demand and the economics of demand:** Robert Simmons, Head of Coffee and Cocoa, LMC International; **Is there still room for growth in coffee consumption?** Judith Ganes-Chase, Founder and President, J. Ganes Consulting LLC.

Session 3: Environmental Sustainability

Moderator: David Brooks, Director for Natural Resources Policy and Environmental Reviews, Office of the US Trade Representative; **Climate change and coffee production: vulnerability and possible adaptation:** Eduardo Delgado Assad, Researcher and Coordinator of Climate Change Studies, Embrapa Informática Agropecuária; **Peak Coffee? Future-proofing the coffee supply in a changing world:** Peter Baker, Project Development Coordinator, CABI Bioscience; **Climate change and management of biodiversity in the ecosystems of Colombia's coffee region:** Fernando Gast, Director, Cenicafé, Colombia; **Environmental sustainability and coffee diversity in Africa:** Taye Kufa, Senior Researcher (Coffee Agronomist/Ecophysiologicalist), Jimma Agricultural Research Centre, Ethiopia.

Session 4: Social Sustainability

International Women's Coffee Alliance: Promoting possibilities – Moderator: H.E. Mme Josefa Leonel Correia Sacko, Secretary-General, InterAfrican Coffee Organisation (IACO); **Promoting Possibilities:** Launtia Taylor, President of the Board of Directors, International Women's Coffee Alliance (IWCA); **Exploring the hidden potential of women:** Karl Schmidt, President, Probat Burns, Inc.; **ASOMOBI – Making dreams come true:** Ana Laura Quirós Montoya, President of the *Asociación de mujeres*

Organizadas de Biolley (Organized Women's Association of Biolley) (ASOMOBI), Costa Rica; **Shakti – Empowering Women in our Global Community:** Sunalini Menon, Founder, Coffeelab Private Ltd., India.

The Millennium Development Goals, capacity-building and support for producers – Moderator: Saint-Cyr Djikalou, Permanent Representative of Côte d'Ivoire to International Commodity Bodies in London; **The importance of sustainability in development, with particular regard to coffee:** Enzo Barattini, Chief Negotiator for Commodities and Commodity Agreements, Directorate General for Development and Relations with African, Caribbean and Pacific (ACP) Group of States, Commission of the European Union; **Government support programmes and subsidies for the coffee sector in India:** G.V. Krishna Rau, Chairman, Coffee Board of India; **Youth, social sustainability and coffee in African coffee producing countries:** Ishak Kasule Lukenge, Managing Director, KDS Coffee Ltd., Uganda; **2000-2010 and beyond: A path to sustainability in the coffee sector:** Andrea Illy, Chairman and CEO, Illycaffè SPA, Italy; **USAID and sustainable coffee development:** Wayne R. Nilsestuen, Mission Director, U.S. Agency for International Development (USAID), Guatemala.

The texts of all presentations are available on the ICO website. The Council considered a report on the themes of the Conference and challenges facing the sector in September 2010 (see document ICC-105-4, summarized below):

- **Economic and policy environment:** The wider economic environment can have a significant impact on economic sustainability. There is a need for cooperation to develop coordinated policies to address global challenges such as sustainability and climate change.
- **Basic and applied research:** Issues to be addressed include: mapping the coffee genome; conserving genetic diversity; managing pests and diseases; increasing yields; improving quality; measuring the carbon and water footprint of cultivation; and food safety.
- **Capacity-building:** The move towards a more liberalized marketplace has often involved dismantling institutions and support services. Support is needed to improve access to markets and strengthen farmers' organizations.
- **Good practices:** Significant scope exists for enhancing sustainability by adopting better farming and eco-friendly techniques, including using best agronomic practices and improved harvesting techniques.
- **Diversification and multi-functionality:** To avoid overdependence on a single commodity, coffee growers should seek complementary sources of income from other crops, livestock and activities such as ecotourism.
- **Finance and risk management:** Coffee growers require greater access to finance and risk management instruments, including favourable credit conditions; financing for stocks, renewal of plantations, infrastructure and inputs; microfinance; protection against price volatility; and weather risk insurance.



Podium



Enzo Barattini
Commission of the European Union



Judith Ganes-Chase
President, J. Ganes Consulting LLC



Ishak Kasule Lukenge
Managing Director, KDS Coffee Ltd., Uganda



Kwaku Owusu Baah
Director of Economic Studies,
InterAfrican Coffee Organisation



Aleksandr Malchik
President, Montana Coffee Holding Ltd.



Exhibition area



Ricardo Villanueva
Chairman of Anacafé and
Néstor Osorio
Executive Director of the ICO

- **Value addition:** Ways of adding value for producers include differentiation and additional processing. At the same time, the trade of processed coffee is often subject to tariff and non-tariff barriers, thus limiting the possibility of adding value for producers.
- **Information and market transparency:** The lack of reliable and wide-ranging statistics hampers the ability to arrive at optimal decisions. There is also a need to disseminate information such as scientific and technological developments.
- **Environmental sustainability:** Coffee production is under increased pressure from climate change and more systematic research needs to be conducted on how to address this challenge.
- **Social sustainability:** A greater empowerment of the large number of women who work in the sector and more incentives to attract youth participation are necessary for the long-term sustainability of the world coffee market.
- **Economic sustainability:** Price levels in recent years have been insufficient to off-set rising costs and encourage investment to meet steadily growing demand. Growers need support in finding ways to increase profitability and mitigate effects of rising costs.
- **Socio-economic drivers:** Demand for coffee is closely linked to population, disposable income, prices and consumer tastes. There is potential to increase consumption, especially in producing countries and emerging markets which will be the engines of future growth. In developed country markets, the trend towards greater out-of-home consumption is likely to continue. Particular emphasis must be paid to attracting young consumers.
- **Quality:** Consumers demand a wide range of qualities. Emerging markets and producing countries require low-cost products that are easy to prepare while growth in the mature markets of developed countries is closely associated with speciality coffee, where high quality is a prerequisite.
- **Pricing:** Coffee must represent a favourable value equation for consumers. Availability of coffee at accessible prices is important for the continued growth of world consumption.
- **Sustainability:** Sustainability of supply is increasingly important and coffee certified as being sustainably cultivated is likely to command an increasing market share in the future.
- **Innovation:** A key element in growing demand has been the ability of the industry to develop innovative forms of consumption, such as ready-to-drink coffee, iced and frozen beverages and recyclable materials.
- **Promotion and market development:** Generic promotion campaigns have proven to be successful tools for market development. Significant headway has been made in providing a more balanced view of the health effects of consumption, but further work needs to be done.
- **Competition from other beverages:** Coffee faces strong competition from other beverages, especially soft drinks, water, sports beverages, energy drinks and tea.

COFFEE DEVELOPMENT PROJECTS

ICO project activities contribute to the Organization’s mission by strengthening the entire coffee value chain and especially by helping to improve living standards of coffee farmers in producing countries. They continue to be characterized by a funding scheme whereby the Common Fund for Commodities (CFC) contributes around 50%, with the balance provided by bilateral and multilateral donor institutions in respect of co-financing and by the beneficiary countries in respect of counterpart contribution (often in kind).

The graphs on the right show how sources of funding vary by beneficiary countries, and how the portfolio is distributed by strategic areas of action. Details of the portfolio by project can also be found on the ICO website at www.ico.org.

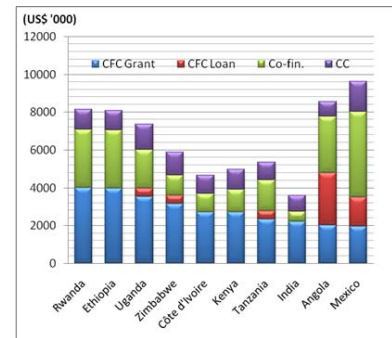
The funding that the ICO has secured for implementation of projects over the last 15 years has allowed it to strengthen its partnership with the CFC, collaborate with other international agencies, consolidate in-house procedures for appraising and prioritizing project proposals prior to their submission for funding and improve methods for supervising and monitoring project implementation activities so as to ensure the delivery of results to Member countries benefiting from projects.

During the last coffee year the ICO participated in three important events to show the results and lessons learned from projects implemented in Africa, Asia and Latin-America. The first was the international seminar held in The Hague in December 2009 to celebrate the 20th anniversary of the CFC on ‘The Role of Commodities in Development’. The second was during the World Coffee Conference in Guatemala City in February 2010 and the third was at the 68th session of the Committee on Commodity Problems held at the Food and Agriculture Organization (FAO) headquarters in Rome in June 2010.

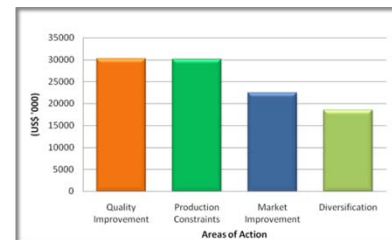
Projects approved by the CFC

As at 30 September 2010, the ICO has sponsored and secured financing for 33 coffee projects with a total value of US\$101 million, some US\$53 million of which has been financed by the CFC, with the balance of US\$28 million provided by bilateral and multilateral donor institutions in the form of co-financing, and around US\$20 million by the beneficiary countries in the form of counterpart contributions. In total, 20 projects have been concluded and 13 are being implemented. The value of the projects portfolio increased by US\$12.76 million in 2009/10 with the approval by the CFC of two new projects. Details of all concluded and ongoing projects are summarized on the table on page 18.

Coffee development projects and the mission of the ICO



Coffee development projects: Top ten beneficiaries – funding sources



Project portfolio (US\$101 million) by area of action



ICO stand in The Hague, December 2009



ICO stand at the World Coffee Conference, Guatemala, February 2010

PORTFOLIO PROJECTS	Total cost	CFC	Co-fin.	CC	STATUS OF PROJECT IMPLEMENTATION*		
					1995/96 - 2007/08	2008/09	2009/10
	(in thousand US\$)						
PROJECTS CONCLUDED (20)	46,675	22,801	14,704	9,170			
Development of gourmet coffee potential (10/96 – 05/00)	1,412	1,018	110	284	Concluded		
Integrated management of the coffee berry borer (10/96 – 05/02)	5,467	2,968	850	1,649	Concluded		
Study on coffee marketing systems and trading policies in selected coffee-producing countries (04/97 – 05/00)	289	244	0	45	Concluded		
Coffee market development and trade promotion in Eastern and Southern Africa (10/97 – 09/07)	9,101	5,012	2,540	1,549	Concluded		
Improvement of coffee production in Africa by the control of coffee wilt disease (tracheomyces) (04/98 – 02/08)	8,952	3,517	4,349	1,086	Concluded		
Characteristics of the demand for Robusta coffee in Europe (10/98 – 2001)	29	29	0	0	Concluded		
Enhancement of coffee quality through prevention of mould formation (10/98 – 09/05)	5,593	2,526	2,067	1,000	Concluded		
Coffee processing study – Rwanda (10/99 – 05/00)	68	68	0	0	Concluded		
Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua (10/00 – 12/05)	5,330	910	3,468	952	Concluded		
Coffee price risk management in East Africa (10/01 – 2002)	60	60	0	0	Concluded		
Study of the potential for commodity exchanges and other forms of market places in COMESA countries (10/01 – 06/03)	60	60	0	0	Concluded		
Workshop on structured short- and medium-term finance to small-scale farmers in Africa (10/00 – 04/01)	30	30	0	0	Concluded		
Workshop on coffee quality through prevention of mould formation in Ecuador (10/01 – 2001)	65	60	0	5	Concluded		
Integrated white stem borer management in smallholder coffee farms in India, Malawi and Zimbabwe (10/01 – 06/07)	3,104	2,262	123	719	Concluded		
Regional workshop on the coffee crisis in Central America (04/03 – 09/03)	40	40	0	0	Concluded		
Sustainable coffee development in Eastern Africa (07/03 – 09/05)	30	15	15	0	Concluded		
Worldwide comparative analysis of coffee-growing areas (10/03 – 09/06)	120	60	60	0	Concluded		
Improving coffee quality in East and Central Africa through enhanced processing practices in Rwanda and Ethiopia (04/04 – 02/08)	2,937	2,029	122	786	Concluded		
Robusta quality and marketing improvement by optimal use of coffee terroirs (10/02 – 03/08)	943	448	0	495	Concluded		
Pilot short- and medium-term finance to small-scale coffee farmers in Kenya (10/01 – 10/09)	3,045	1,445	1,000	600		Concluded	
PROJECTS ONGOING (13)	54,574	30,401	13,345	10,829			
Pilot rehabilitation of the coffee sectors in Honduras and Nicaragua (04/00 – ongoing)	6,837	4,220	505	2,112		Ongoing	
Pilot rehabilitation of neglected coffee plantations into small family production units in Angola (10/00 – ongoing)	8,530	4,750	2,980	800		Ongoing	
Coffee price risk management in Eastern and Southern Africa (04/01 – ongoing)	2,529	1,829	0	700		Ongoing	
Diversification of production in marginal areas in the State of Veracruz, Mexico (04/05 – ongoing)	4,467	2,552	1,118	797		Ongoing	
Reconversion of small coffee farms into self-sustainable agricultural family units in Ecuador (10/05 – ongoing)	3,199	1,118	458	1,623		Ongoing	
Enhancing the potential of gourmet coffee production in Central American countries (04/07 – ongoing)	1,874	618	1,257	0		Ongoing	
Developing the potential of Gourmet Robusta coffee in Gabon and Togo (04/07 – ongoing)	2,469	1,842	0	626		Ongoing	
Increasing the resilience of coffee production to leaf rust and other diseases in India and four African countries (10/07 – ongoing)	4,014	2,919	0	1,096		Ongoing	
Access to finance for the development of diversification crops in coffee producing areas (10/07 – ongoing)	3,007	2,693	0	314		Ongoing	
Enhancing competitiveness of African coffee through a value chain analysis (04/09 – ongoing)	284	120	0	164		Ongoing	
Building capacity for coffee certification and verification in Eastern Africa (04/09 – ongoing)	4,601	2,000	1,605	996		Ongoing	
Competitive coffee enterprises programme for Guatemala and Jamaica (10/09 – ongoing)	4,750	2,500	1,000	1,250		Ongoing	
Sustainable credit guarantee scheme to promote scaling up of enhanced coffee processing practices in Ethiopia and Rwanda (04/10 – ongoing)	8,013	3,240	4,422	351		Ongoing	
PORTFOLIO TOTAL (33)	101,249	53,202	28,049	19,999			

* The starting point for portfolio projects is the date of approval by the CFC Executive Board.

CC = Counterpart contribution

PIPELINE PROJECTS	Total Cost	CFC	Co-fin.	CC	STATUS OF PROJECT CONSIDERATION*		
					2000/01 - 2007/08	2008/09	2009/10
	(in thousand US\$)						
UNDER CONSIDERATION BY THE CFC (6)	16,160	10,268	4,030	1,824			
Study of the potential for commodity exchanges and other forms of market places in West Africa (ICO: 05/08)	106	94	0	13			CFC PAC
Raising income security of smallholder coffee farmers in Malawi and Tanzania through sustainable commodity diversification (ICO: 09/08)	3,000	2,183	650	166			CFC PAC
Qualitative and quantitative rehabilitation of coffee with the aims of improving living conditions of coffee farmers afflicted and displaced by war and their restoration to their areas of origin as well as the protection of their biophysical environment in the Democratic Republic of Congo (ICO: 03/09)	3,801	2,319	380	1,064			CFC PAC
Enhancing the potential of Robusta gourmet coffee production in Uganda, Tanzania and Angola (ICO: 03/10)	3,453	2,837	100	516			CFC PAC
Pest control model and good agricultural practices (GAP) application in different coffee growing areas in Indonesia (ICO: 09/10)	500	435	0	65			CFC PAC
Improving African coffee processing and market access (ICO: 09/10)	5,300	2,400	2,900	0			CFC PAC
UNDER CONSIDERATION BY OTHER DONORS (7)	26,450	17,439	5,417	3,593			
Enhancing use of coffee germplasm - an African perspective (ICO: 05/01)	10,930	8,566	0	2,363			Reformulation
Improvement and diversification of coffee production of smallholders in Central America (ICO: 09/02)	7,858	3,790	4,068	0			Reformulation
Renovation of CATIE's international coffee collection (ICO: 09/07)	419	419	0	0			Sources of funding to be sought
International research and development services for the durable genetic control of two destructive diseases affecting Arabica coffee (ICO: 09/07)	2,696	1,567	0	1,129			Sources of funding to be sought
Raising Vietnamese coffee farmers' income through increased farming efficiency and quality management (ICO: 09/09)	1,345	788	456	101			Sources of funding to be sought
Trifinio sustainable coffee project (ICO: 05/08)	2,729	1,836	893	0			Sources of funding to be sought
Coffee genetic resources conservation and sustainable use: global perspective (ICO: 09/09)	473	473	0	0			Reformulation
UNDER CONSIDERATION BY THE ICO (5)	25,538	17,742	0	7,796			
Enhancing income of smallholder farmers groups in the coffee producing belt of Nigeria (ICO: 05/05)	5,822	4,822	0	1,000			VSC
Integrated management of the Coffee Berry Borer (CBB) with a quality and sustainability component for coffee-growing in Central America (ICO: 05/08)	11,216	4,420	0	6,796			VSC
Characterization, enhanced utilization and conservation of <i>Coffea</i> germplasm diversity (ICO: 09/09)	3,000	3,000	0	0			VSC
Promotion of domestic coffee marketing and consumption in the Central African Republic (ICO: 03/10)	5,500	5,500	0	0			VSC
Smallholder coffee expansion in Malawi – Concept note (ICO: 03/10)	0	0	0	0			VSC
PIPELINE TOTAL (18)	68,148	45,449	9,447	13,213			

* The starting point for projects under consideration by the CFC and other donors is the ICO Council approval date, and the submission date in the case of projects under consideration by the ICO.

CC = Counterpart contribution

CFC PAC = Project Appraisal Committee of the CFC

VSC = Virtual Screening Committee

New project launched in Guatemala and Jamaica



Launching ceremony in Jamaica



Launching ceremony in Jamaica

Project to be started

Concluded project

An outline of two new projects approved by the CFC together with a summary of the main results from the pilot project on short- and medium-term finance to small-scale coffee farmers in Kenya that recently concluded are presented below.

Competitive coffee enterprises programme for Guatemala and Jamaica (started 07/10 – ongoing)

This project was approved by the CFC Executive Board in October 2009. Following the signature of the Project Agreement during the World Coffee Conference in Guatemala in March 2010, the project was launched in Kingston, Jamaica on 17 July 2010. It aims to strengthen the coffee sector in Guatemala and Jamaica through a Coffee Competitiveness Programme based on six components: 1) sustainable development; 2) income diversification; 3) marketing intelligence; 4) marketing; 5) funding; and 6) institutional strengthening.

The total cost of this three year project is US\$4.7 million, of which the CFC is contributing US\$2.5 million, Oikocredit is providing US\$1 million in co-financing and the participating countries US\$1.25 million. The National Coffee Association of Guatemala (Anacafé) will act as the Project Executing Agency (PEA) and, in collaboration with the Coffee Board Industry of Jamaica, will work towards increasing the quality and productivity as well as organizational and management improvement in the Fraijanes and Cobán regions of Guatemala and in the Lowland regions of Jamaica.

Improving coffee quality in Eastern and Central Africa: Scaling up of enhanced processing practices in Ethiopia and Rwanda (approved 04/10 – to be started)

The project was approved by the CFC Executive Board in April 2010. It is designed to improve the livelihoods of small-scale coffee farmers in Eastern and Central Africa on a sustainable basis. This will be achieved by promoting the production of high quality coffee through the adoption of enhanced coffee processing practices. The high quality coffees are expected to subsequently attract premium prices in the market thereby translating into improved household income.

The total cost of this three year project is US\$8 million, of which the CFC is contributing US\$3.2 million, Rabobank Foundation and a local bank are providing US\$4.4 million in co-financing and the participating countries US\$351,250. CABI Africa will act as the PEA.

Pilot short- and medium-term finance for small-scale coffee farmers in Kenya (10/01 – to be concluded in October 2010)

This project was implemented in three phases. The latest and final phase (Phase III) consisted of input loan provision and the design of a credit guarantee scheme and was completed in September 2010.

The pilot project aimed to demonstrate how access to institutional input credit services can be provided to small-scale coffee growers on commercial terms in combination with other non credit services on a sustainable basis

to enhance coffee productivity and quality in coffee growing regions. Smallholders account for about 60% of the coffee production in Kenya and without credible arrangements for supplying them with production credit, the coffee sector was likely to be trapped in a vicious circle characterized by ‘low capital – low input – low production – low income’.

Good responses from farmers to the credit product and positive results achieved in terms of enhancing productivity and quality highlight the importance of a credit product and well-structured, inclusive, participatory and flexible lending methodology for providing input credit to small-scale coffee farmers. The product and delivery mechanisms under the project brought about a paradigm shift in the provision of financing to these farmers. Important features included:

- Financing of the entire production cost based on scientifically recommended agronomic practices, recommended input use and labour requirements for different activities based on the number of trees and coffee varieties
- Phased disbursement of credit as per the calendar of operations
- Timely supply of quality inputs i.e. fertilizers, pesticides and fungicides in required quantities
- Close supervision of individual farms by groups and project staff to ensure good production practices
- Tracking, separate processing of project coffee and adoption of good processing practices

The cumulative impact of these measures was reflected in significant improvements in yield and quality of coffee, and farmers’ income and loan repayment performance during the project. Group mechanisms were used in dissemination of training and extension inputs and field supervision was another very effective feature. The use of a coffee farmers’ passbook by individual farmers to record all their farm activities also greatly aided monitoring of loan use and supervision. Thus, credit features enhanced the effectiveness and productivity of farm credit. Successful testing of the product means it can now be utilized by banks and other financial institutions for lending to farmers (who were previously perceived as risky).

Quality control

To enhance the quality of coffee production, there was specific emphasis on adoption of good agronomic practices by farmers and good processing practices in primary processing. Continuous efforts were also made to sensitize farmers on quality coffee production through farm visits, factory visits, field demonstrations, training, etc.



Coffee tree before the project



Coffee tree after the project

Sustainability of the project

Farmers derived multiple benefits from the product and lending methodology developed under the project including: access to adequate, timely and soft credit; quality farm inputs; cash loans against labour components; technical guidance, extension and training support; support from groups; increased coffee production with enhanced quality; higher incomes; better repayment capacity; and better maintenance of coffee plantations.

Strengthening social capital

Implementation of the pilot project has created valuable social capital at all levels. Importantly, attitudinal changes occurred among smallholder farmers. Their experience was that appropriate input use and good production practices lead to higher yields, quality and incomes, which can then sustain commercial borrowing for coffee production. The tendency to neglect coffee and despair of smallholder farmers was replaced by a determination to succeed. Farmers found borrowing for coffee production a bankable proposition and acquired insights and practical skills in commercial coffee production. Lending agencies started to realize that there was business potential in providing financing to smallholder farmers using the credit product.

Strengthening project activities

As the Organization's project activities provide tangible benefits to producing countries, Governments and specialized agencies are increasingly interested in addressing specific coffee development issues through ICO projects. The 2007 Agreement strengthens project activities by establishing a Projects Committee which, together with a new Consultative Forum on Coffee Sector Finance, will assist in further promoting international cooperation and securing funding for proposals aimed at improving living standards for coffee farmers.

Pipeline

During the last coffee year, five new project proposals were evaluated by the Virtual Screening Committee (VSC), of which three were endorsed by the Council for submission to the CFC and the other two were recommended for revision.

The current pipeline is composed of 18 project proposals, of which 13 have been approved by the Council and another five are currently being considered by the ICO for technical screening. Details of projects currently in the pipeline are given in the table on page 19.

Proposals in the pipeline already approved by the Council are divided into two categories: projects that are eligible for CFC funding and projects that require other sources of funding. In the first case, the ICO continues to rely on support from the CFC, while in the second case, new avenues must be explored to involve strategic partners who can provide financial and/or practical support. The search for new sources of project finance will be a priority under the new Agreement.

SUSTAINABILITY

The Organization is working to promote awareness of the need for a sustainable coffee economy by making stakeholders in the coffee sector attentive to the threat to sustainability posed by negative economic conditions for producers, and proposing measures in areas such as quality, diversification and market improvement to improve the economic environment in order to encourage stability and reasonable living standards for the populations involved with coffee.

The contribution made by coffee growing and trading to environmental and social issues is generally considered to be highly positive, certainly compared with most alternative economic activities. On the environmental side coffee is an evergreen shrub, hence an important contributor to carbon sequestration, and is effective in stabilizing soils. It also permits the preservation of much of the original bio-diversity in planted areas.

However, one of the main problems for some regions continues to be water pollution arising from wet processing. To address this issue, the Organization encourages adoption of good agronomic practices by farmers and use of environmentally-friendly technologies for the primary processing through pilot projects.

In Africa, during the last coffee year, a project entitled ‘Improving coffee quality in Eastern and Central Africa: Scaling up of enhanced processing practices’ was approved (with a total value of US\$8 million) to promote the production of high quality coffee, through the adoption of enhanced coffee processing practices in Ethiopia and Rwanda.

In Latin America, three projects are being implemented to improve the quality of coffee production while improving environmental and labour standards. In Nicaragua and Honduras, the project ‘Rehabilitation of the coffee sectors’ (with a total value of US\$6.8 million) facilitated the replacement of damaged/old coffee wet processing capacity with environmentally-friendly technologies. The results obtained have led the environmental authorities in both countries to recommend this technology as a model to be followed in constructing new processing units.

The second project entitled ‘Enhancing the potential of gourmet coffee production in Central American countries’ (with a total value of US\$1.9 million), has helped farmers to increase their income by encouraging good agricultural practices (GAP) through the use of improved in-farm processing with better equipment and efficient use of farm by-products to produce organic fertilizers and substrate for mushrooms production. The project has also focused on building relationships between importers and cooperatives, which has yielded access to a higher value market niche to producers for their high quality coffee.

Contributing to sustainable development



Ecologically friendly wet processing unit promoted by the CFC/ICO projects in Central America

Environmental and social issues



Worm composting unit in Guatemala



Diversification in Ecuador

The third project entitled ‘Reconversion of small coffee farms into self-sustainable agricultural family units in Ecuador’ (with a total value of US\$3.1 million), has facilitated the introduction of new agricultural/livestock activities and clean practices to reconvert traditional coffee farms affected by El Niño (a climatic phenomenon) into productive family units. The results are twofold positive; on the one hand, diversified food sources have improved food security and, on the other, the introduction of reforestation, water and soil conservation practices has helped to protect the prevailing agro-ecological conditions and safeguard valuable agronomical species put at risk by El Niño.

Climate change

In practical terms, the ICO encourages efforts to strengthen regional capacity. A good example of this is the project ‘Short- and medium-term finance for small-scale coffee farmers’ recently concluded in Kenya, which offered the farmer multiple benefits as described above.

Whereas climatic variability has always been the main factor responsible for fluctuations of coffee yields in the world, climate change, as a result of global warming, is expected to become one of the most pressing factors affecting coffee production in the future, together with increased pressure from competing uses for land, reduction in water supplies, deforestation and population growth.

Experts participating in the World Coffee Conference identified a variety of mitigation and adaptation strategies in response to the challenges facing the sector.

Short-term adaptation strategies include improved farming practices and better post-harvest processing. Longer-term strategies include capacity-building, improved monitoring of climate data, enhancing soil fertility, introducing or preserving different production models, and developing drought and disease-resistant varieties. In more extreme cases, the solution may be to diversify out of coffee or shift production to more suitable areas. Mitigation strategies include calculating and reducing greenhouse gas emissions on the farm, and facilitating the creation of carbon sinks.

Although these strategies have been identified, a need has been identified for more systematic research to be conducted on the ways in which the world coffee sector can face up to the challenges posed by climate change.

The Organization continues to assist Members with project activities in areas for action that take into consideration economic, social and environmental issues, and with information such as studies and reports on climate change.



**Environmental Sustainability panel,
World Coffee Conference**

COOPERATION WITH OTHER AGENCIES

The ICO continued to develop cooperation with donor and multilateral agencies during the year. The Executive Director, Néstor Osorio, participated in the 20th anniversary celebrations of the Common Fund for Commodities (CFC) in December 2009 and spoke on behalf of International Commodity Bodies (ICBs) on international commodity governance. In his intervention, he highlighted the value of cooperation with the CFC and the importance of the work of ICBs in developing and implementing projects, with over 280 projects with a value of US\$500 million approved since 1989.

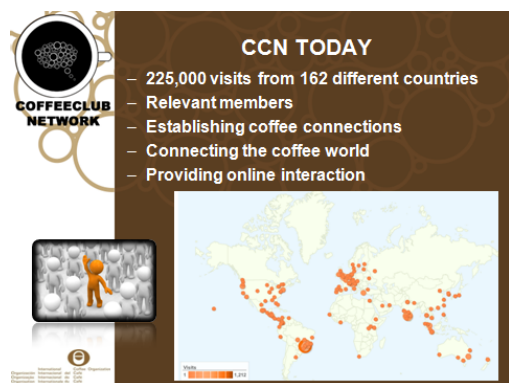
Contacts with organizations such as the World Bank, International Trade Centre UNCTAD/WTO, Asian Development Bank, InterAfrican Coffee Organisation (IACO), United States Agency for International Development (USAID), Finance Alliance for Sustainable Trade (FAST), International Women's Coffee Alliance and others were strengthened through their participation in the World Coffee Conference in Guatemala and the Expert Panel on Coffee Sector Finance.

The ICO was represented at a meeting of the FAO Committee on Commodity Problems in June 2010 and organized a meeting of Members with the International Coffee Genome Network in September 2010 to discuss collaboration on projects related to the coffee genome with long-term benefits for the coffee industry. During the year discussions also took place with donor agencies, such as the African Development Bank and the International Finance Corporation, on the prospects for technical assistance on projects.

PROMOTING CONSUMPTION

ICO CoffeeClub Network

Membership of the ICO CoffeeClub Network now stands at around 1,200, an increase of 71% on the previous year. The Network, which was launched in 2008, has received over 225,000 visits from 162 different countries, enabling participants to establish connections and interact online in 79 different discussion forums moderated by 30 expert mediators.



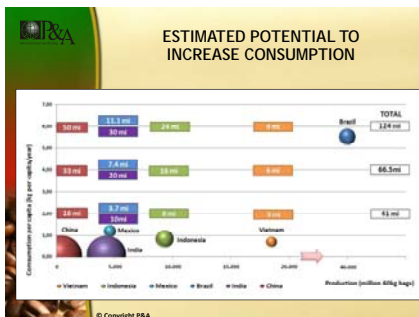
Some 42 new forums catering for a range of interests were initiated during the year including:

- Coffee origins
- Specialty Coffee Association of America
- 100% Papua New Guinea Arabica Coffee
- Fairtrade coffee
- Coffee and literature

The Network was originally developed with funding from the ICO Promotion Fund with the aim of promoting coffee worldwide. It is a valuable source of information and resources such as videos and news, and also facilitates problem-solving and business transactions. The Network has great potential to connect small growers with roasters such as through the Coffee Business Opportunities Forum.

Following the signature of a Memorandum of Understanding with the ICO in August 2010, the consultants will redevelop the website to make use of Web 2.0 service tools, and an updated version will be launched in 2011.

Step-by-Step Guide to Promote Coffee Consumption



The ICO Step-by-Step Guide to promote consumption continues to provide a valuable model for developing consumption programmes in producing countries. Costa Rica, Colombia, El Salvador, India, Indonesia and Mexico are among ICO Members who have established institutional programmes to increase internal consumption.

In the case of Colombia, this country launched a programme entitled ‘Toma Café’ in March 2010. The programme focuses on four strategic aspects: the benefits of coffee, occasions and places of consumption, revaluing coffee in retail channels and a support network.

Practical applications of the ICO Step-by-Step Guide

RECENT APPLICATIONS OF THE GUIDE: COLOMBIA

- Toma Café
- Program launched in March 2010
 - slogan “Necesitas más cuerda?”
- Active participation of largest players (roasters + soluble)
- Main strategic lines being developed
 - benefits of coffee
 - better preparation practices
 - value addition in retail
 - creating a support network

Since the Guide was published in 2003, consumption has increased by over 30% in producing countries. A centralized budget, holding workshops with those involved, and an executive coordinator for programmes are among the lessons learned in developing institutional initiatives. The next steps will be to review and update the Guide to take account of new technology such as Web 2.0 and new experiences.

Cooperation with ASIC

ICO Members made a contribution of US\$2,000 from the Promotion Fund towards the 23rd Association for Science and Information on Coffee (ASIC) Conference in Bali in October 2010, continuing the long-established tradition of support for science and coffee.

PRIVATE SECTOR COOPERATION

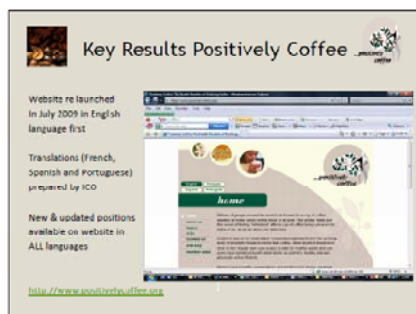
The Private Sector Consultative Board (PSCB), chaired by Rodolfo Trampe of the Mexican Association of the Coffee Production Chain (AMECAFÉ), met on two occasions during the year and discussed a wide range of coffee matters.

External speakers who were invited to make presentations to the Board included representatives from the New York futures exchange on the futures market and price differentials; the London futures exchange on the new Robusta contract and the results of a new regulatory review; the Coffee Quality Institute on adding value to Robusta coffee and programmes undertaken in West Africa; and the International Coffee Genome Network on sequencing the coffee genome. Further presentations were made to the Board by the Specialty Coffee Association of America on the Global Coffee Quality Research Initiative developed by the Norman Borlaug Institute for International Agriculture; by the All Japan Coffee Association concerning coffee imports and residual agrochemicals; and by AMECAFÉ on initiatives to reduce child labour.

The PSCB kept a wide range of subjects under continuing review, including food safety aspects, such as prospective legislation and the latest scientific evidence on Ochratoxin A (OTA), acrylamide and furan. A number of other important issues included the use of pesticides in growing coffee, the supply of private sector statistical data and the availability of resources within the ICO Promotion Fund.

The activities of the Positively Coffee Programme and Health Care Profession – Coffee Education Programme (HCP-CEP), both of which are supported by the PSCB, are examined in greater detail on page 28.

POSITIVELY COFFEE PROGRAMME



Positively Coffee Programme

The Positively Coffee Programme continues to provide up-to-date scientific information about coffee, caffeine and health to industry and other audiences. Coffee industry associations, ICO Members, and other audiences from consuming and producing countries increasingly want access to the latest information in a format that is easily understandable. Positively Coffee's key objective is to provide an ongoing scientific communications service via a website www.positivelycoffee.org.

In 2009/10 the programme was evaluated by the Institute for Scientific Information on Coffee (ISIC). A key conclusion was that both the forthcoming EU legislation on health claims and the general environment require a revision in the approach used up to now. The website will be given a new brand identity and will aim to be the primary resource on coffee and health by providing support for frontline practitioners (especially GPs and dieticians), making available updates for scientists and resources for European and global healthcare media and assisting national coffee sectors with their communications.

HEALTHCARE PROFESSIONS – COFFEE EDUCATION PROGRAMME (HCP-CEP)

In 2003, ISIC identified a strategic need to become more proactive in informing medical and healthcare professional audiences about current scientific knowledge and understanding the role of coffee and health. Market research among both the general and medical audiences has shown that, where negative views about the effects of coffee and health exist, this may affect consumer attitudes about coffee consumption.

The HCP-CEP supports activities undertaken by national coffee associations to bring up-to-date and authoritative scientific findings to medical and healthcare professionals. The Programme currently runs in Denmark, Finland, Germany, Italy, the Netherlands, Portugal, Spain, the Russian Federation and the United Kingdom.

Tangible benefits

Since the start of the Programme, tangible benefits have emerged, such as:

- Improvements in the knowledge of healthcare professions about coffee and health and better informed advice to patients and clients;
- More extensive relationships on the country level among scientists, professional associations and key opinion formers;
- The opportunity to be more proactive towards healthcare audiences and specialist media.

Programme participants are careful to communicate only what is supported by science and to ensure that materials are based on up-to-date research on positive, neutral and negative aspects of coffee and health. For instance, instead of making a statement like 'coffee will protect you from type 2 diabetes', it is more scientifically correct to say that research suggests that coffee drinking may be associated with a reduced risk of developing type 2 diabetes. In the HCP-CEP, scientific accuracy must take precedence over simplicity of language.

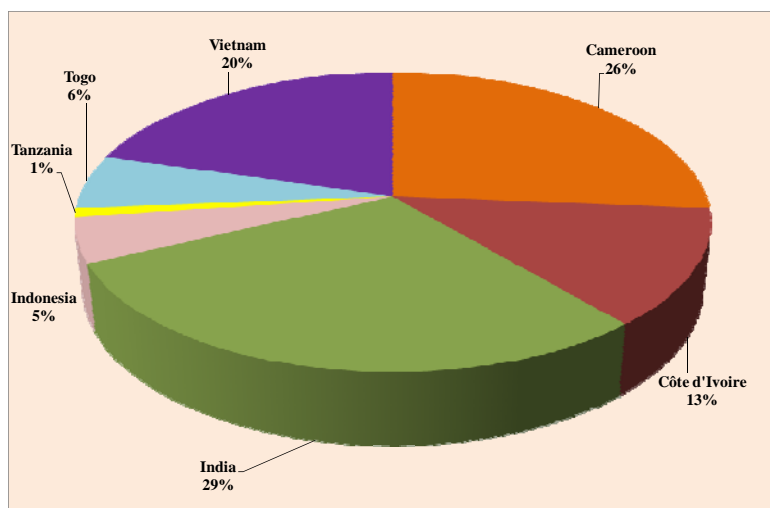
COFFEE QUALITY-IMPROVEMENT PROGRAMME (CQP)

Since June 2004 when Resolution 420 came into effect, 28 exporting Members have provided information on the quality of their coffee exports, through codes in Certificates of Origin that identify certain basic quality standards for defects and moisture content. It is important to bear in mind that the parameters set out in Resolution 420 are voluntary and do not impose restrictions on the coffee trade; the Resolution simply requests exporting Members to declare the quality of their green coffee shipments.

The total volume of green coffee exported by all exporting countries in 2009/10 amounted to 86.4 million bags. The volume of green coffee exported by the 25 Members who have consistently participated in the Coffee Quality-Improvement Programme (CQP) during the year amounted to nearly 67% of world exports. On the basis of the information extracted from Certificates of Origin, the volume of green coffee exported by these Members amounted to 57.8 million bags, of which 51.7 million bags (89%) were Arabica and 6.1 million bags were Robusta (11%).

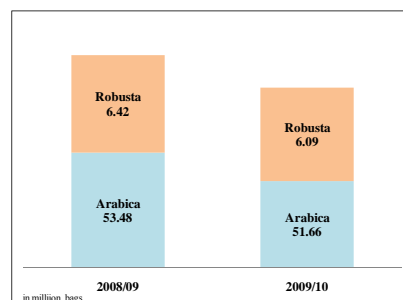
The London futures exchange (NYSE Euronext) systematically carries out Robusta coffee gradings. Its results for coffee year 2009/10 indicate that 164,667 bags were below the CQP standards, of which nearly 62% originated from Togo and 21% from Côte d'Ivoire. In 2009/10, coffee graded under the classification 'P', for *Premium Class*, which refers to coffee that exceeds the usual classification standards (grades 0 to 4), amounted to 17,167 bags, of which over 75% originated from Cameroon, India and Vietnam (see the graph below).

Origin/percentage of Premium class coffee in 2009/10

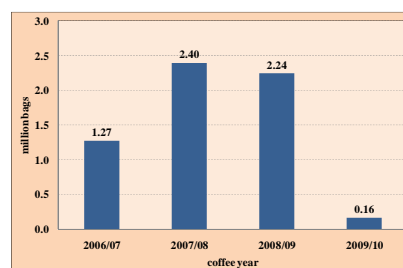


The New York futures exchange (Inter-Continental Exchange Futures) posts monthly results on Arabica coffee by grade and also by cup flavour and bean colour. In coffee year 2009/10, high pass levels were achieved which included just under 93% on grade quality, nearly 86% on cup flavour and over 88% on bean colour. These high rates are encouraging to Arabica producers and reflect their achievements on quality.

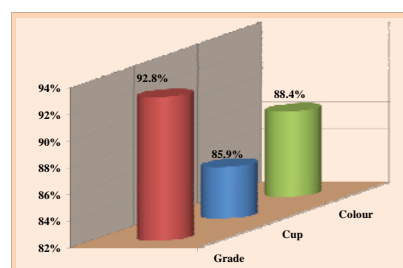
Volume of green coffee exports by type in full compliance with Resolution 420 in 2008/09 and 2009/10



Liffe Gradings results deemed to be below the CQP standards



Pass rates of the original gradings results by ICE in 2009/10



STATISTICS



**Workshop at the
Ministry of Trade in Indonesia**

In September 2010, the Council approved new Rules on Indicator prices which will take effect after the entry into force of the ICA 2007 (see document ICC-105-17). The Rules were revised in consultation with the Executive Director's agents who collect and transmit daily prices to the Organization from France, Germany and the USA. The introduction of new growths of coffee and the consolidation of two markets (France and Germany) into the European market will ensure that the composite and group prices will be calculated on most days, ensuring a continuous series throughout the year in all markets and reducing volatility.

The growths comprising the four groups of coffee (Colombian Milds, Other Milds, Brazilian Naturals and Robustas) give a better representation of each of these groups, in terms of their volume traded on a daily basis. Each group will be weighted on the basis of its overall trade with the European Union and the USA in order to establish the parameters for the daily calculation of the ICO composite and group indicator prices.

During coffee year 2009/10 the Statistics Committee met in September 2010 and discussed the following topics:

- Compliance with the provision of statistical data: on average, exporting Members achieved 90% satisfactory and full compliance with the Rules on Statistics, whereas importing Members achieved 99%.
- Statistics on organic coffee exports: a report showing the available data for this sector was produced. This exercise will be expanded under the ICA 2007.
- Exports to exporting countries: the increasing importance of this trade confirms the need to monitor these exports more closely. The ICO will continue to request exporting Members to provide data on the volume and value of their imports of coffee by origin.
- A coefficient of 1.05 will be applied on the conversion of green decaffeinated coffee into green bean equivalent after the entry into force of the ICA 2007. It will not be applied to the current historical series held by the Organization.
- Technical assistance was provided to Indonesia and Vietnam through workshops held in these countries in October 2009. Local staff dealing with the ICO's statistical requirements were trained in accordance with the Rules in Statistics contained in documents ICC-102-9 (Certificates of Origin) and ICC-102-10 (Monthly reports). Discussions have taken place with the InterAfrican Coffee Organisation (IACO) to carry out similar training to assist African countries.



**Workshop at the Vietnam
Chamber of Commerce and Industry**



**Workshop at the Vietnam Coffee and
Cocoa Association (VICOFA)**

EXPERT PANEL ON COFFEE SECTOR FINANCE

The ICO held an Expert Panel on Coffee Sector Finance on 21 September 2010 to promote an exchange of views, experiences and ideas on issues related to the financing of the world coffee sector, focusing on the possible roles of the Organization in this field. The event was chaired by David Brooks, Director for Natural Resources Policy and Environmental Reviews, Office of the US Trade Representative, USA. Contributions were made by five international experts from the Asian Development Bank; Fideicomisos Instituidos en Relacion con la Agricultura (FIRA), Mexico; Finance Alliance for Sustainable Trade (FAST); Ministry of Agriculture, Livestock and Food Supply of Brazil and the World Bank. The Chairman presented a summary report on discussions by the Panel and Members to the Council (document ICC-105-25) which included the following points:

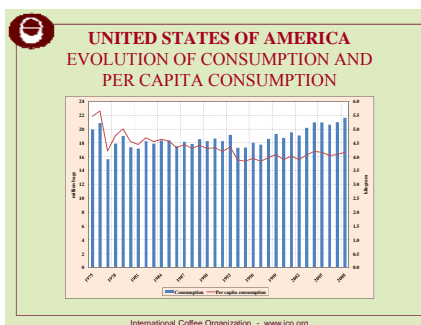
- There are three main types of finance required: short-term, medium-term and long-term. Three major groups of risk need to be managed: production, market and other risks.
- A holistic approach is needed that takes into account factors that go beyond finance per se. There are no ‘one size fits all’ solutions.
- There is a need to look at what has worked and what has not worked, and in the case of successful initiatives, to identify what conditions enabled them to succeed.
- Providing finance to individual farmers can be complex and expensive. There is a need to organize producers and undertake capacity-building in financial literacy, and to consider other solutions such as new technology. Governments need to be involved and coordinate this area on behalf of farmers.
- In many countries, banks do not understand agricultural risk fully and there is a need to inform the banking sector about price risk and opportunities in coffee.
- It can be useful to create contingency funds which can be used by producers during periods of crisis.
- The issue of increasing price volatility is one faced by many commodities, and what happens in one market often has repercussions for another. A paradigm shift is needed, with a multi-stakeholder approach.
- Climate change is another area where risks are increasing, and weather insurance and other tools are needed to manage risks. Index products, although complex, also provide an opportunity.
- ICO Member Governments have considerable experience and there is great potential to learn from each other as demonstrated by examples provided during the Panel.
- Facilitating connections between producers and a variety of financial institutions is important – the FAST online marketplace is an example of a tool providing services to coffee farmers.
- In the case of multilateral institutions, policy-driven work responds to the priorities of Member Governments, which in turn are influenced by the priorities of internal ministries.



Expert Panel – September 2010

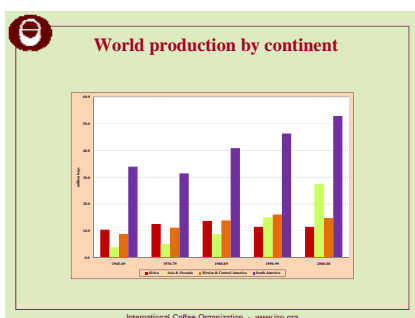
ECONOMIC STUDIES

Coffee consumption in selected importing countries



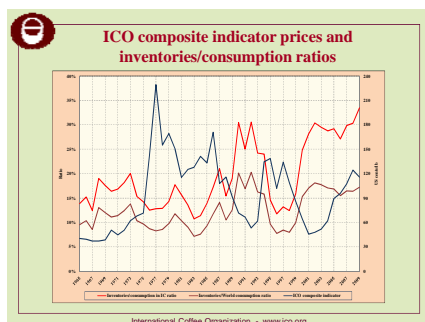
In order to analyse the development of coffee consumption in importing countries and determine its significance, the structure of coffee consumption was observed over a period from 1975 to 2008 (see document ICC-104-1). Importing countries selected for the study based on the volume of consumption and geographical distribution included France, Germany, Italy, Japan, Spain, Sweden and the USA. Despite an increasing population, growth in consumption has been sluggish in a number of these countries since the relationship between income and consumption has become less significant. Higher-income consumers look for better quality or other attributes in their coffee. This tendency explains the high growth rates of niche markets, such as those for specialty and certified coffees, in recent years. However, there are still markets with potential for growth, in particular Spain and Italy, where consumption continues to develop.

Cyclic patterns in the supply of coffee



The behaviour of coffee production from crop years 1965 to 2008/09 was analysed to search evidence of any cyclic patterns. The study contained in document ICC-105-1 indicated that, with the exception of Brazil, there is no consistent long-term cycle in the coffee production of the selected countries. In the case of El Salvador, Ethiopia, Honduras, India and Mexico, where cycles were observed, the statistical parameters were not sufficiently significant to confirm their existence. Some cyclic patterns were observed over short periods, such as in the case of Peru from crop years 2002/03 to 2008/09. With regard to Brazil, the cyclic pattern may be attributable to a combination of factors including coffee cultivation systems, and harvesting techniques which intensify the biennial cycle since trees come under greater stress to provide nutrients to the cherries. A complete model integrating prices and production costs would permit a better understanding of the cyclic behaviour of coffee production.

ICO prices and stocks in exporting countries



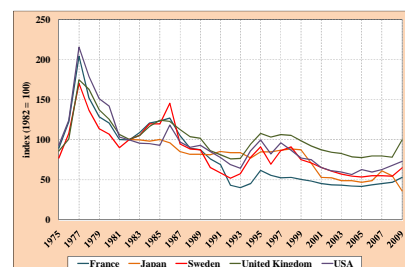
This study contained in document ICC-105-2 reviewed the extent to which coffee prices are influenced by stocks, particularly by their levels and location and covered the period from 1965 to 2009 which was divided into three sub-periods to take into account factors such as market regulation mechanisms. Over the entire period there was a strong negative correlation between world prices and stocks. The relationship was strong both when the market was regulated and during the free market period since 1990. Market developments since 2000 show an even stronger negative relationship. In the case of opening stocks in exporting countries, there is a strong negative correlation with prices during all periods covered. The strongest relations were established during the market regulation period.

Although these relations diminished during the free market period as a whole, recent market developments show an increasing firmness. This could be attributable to reduced production in some exporting countries in recent years. In the case of the impact of inventories in importing countries, there is no evidence of a direct relationship with prices during the export quota period but the free market period shows a negative correlation coefficient. From 2000 to 2009 correlation coefficients were globally positive. The location of inventories in importing countries, particularly the size of each country's share, also had an influence on prices.

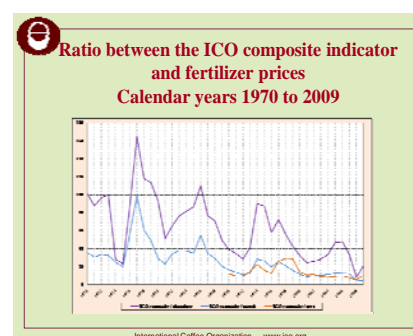
Retail prices vary and exert an important influence on the development of coffee consumption. A comparative analysis of retail price changes from 1975 to 2009 was carried out in ten leading importing countries (see document ICC-105-3). Changes in world prices appear to be passed on at the retail price level in many countries. This relation is much stronger when world price levels are high as rapid upward readjustments of retail prices occur in some importing countries during periods of rising prices. During periods of low prices, as was the case from 1999 to 2004, downward adjustments were much slower. In the case of relations between retail prices in importing countries, there appears to be some convergence between countries. Japan is a singular case since retail prices show no significant links with prices in other countries or indeed to world price changes. The same analysis conducted using deflated prices in national currency shows that most countries recorded declines in their retail prices from 1975 to 2009, indicating that nominal increases in retail prices were not a significant obstacle to the expansion of coffee consumption.

A comparative analysis on the evolution of coffee prices and selected economic variables such as inflation, exchange rates, and agricultural input prices was carried out (see document ICC-105-12). The ICO composite indicator price was used as a reference to compare coffee prices with the prices for fertilizers used in coffee farming. It was also expressed in the currencies of selected importing countries (the euro, pound sterling, Swiss franc, and yen) to determine the extent to which exchange rates influence real levels of green coffee prices. The period of observation was from 1970 to 2009. The relations between coffee prices and fertilizer prices indicate that the purchasing power of farmers who make intensive use of fertilizers fell during the last three years despite the recovery in coffee prices, due to the increased costs of these production factors. The fluctuations of the US dollar against selected national currencies were a contributing factor to weakening or strengthening the impact of movements in coffee import prices in the selected countries. In many cases, an increase in the ICO composite indicator price led to a fall in coffee prices in the local currency as a result of fluctuations in exchange rates of national currencies against the US dollar. Overall, the behaviour of the ICO composite indicator price was similar in all currencies.

Comparative analysis of retail prices of coffee in importing countries



ICO indicator prices and selected economic variables



INFORMATION SERVICES

Library/Information Section

New library management system

“The information that you passed to me will be important. When my research paper is done I will send it to you”. Doctoral student, Brazil.

“Thank you very much for this coffee profile of Colombia ... very helpful for the progress of my work”.
Scientific Researcher,
United Kingdom

Preview of new ICO website

During the past year staff at the Information Section have conducted research on a wide range of topics, including the impact of climate change on global production, the coffee trade in Africa and the Caribbean, value chain analysis, obstacles to consumption and market developments in the producing world and in non-member consumers such as China and Australia.

The section has continued to innovate in consolidating its entire range of information media into a single, readily accessible source. The launch in early 2010 of the newly acquired *Heritage* Library Management System (<http://ico.heritage4.com>) created a flexible platform for the development of the Organization’s information services. As well as facilitating universal access to the bibliographical database *Coffeeline*, the new system incorporates ICO documents and photos, which together amount to almost 50,000 records. Through the use of hyperlinks it connects the Organization’s information resources to the wider research community, placing the ICO at the centre of a worldwide online network of coffee-related information.

The ICO website received more than 36,000 visitors per month on average during 2009/10 (an increase of 8% on the previous year). It has undergone a significant redesign intended to improve overall presentation, enhance its navigability and facilitate access to information generated or accumulated by the Organization. The website continues to expand its role as a vital element in the Organization’s information provision and, beyond that, its public profile.

The screenshot shows the ICO website homepage with a navigation menu at the top. Below the menu, there is a table of ICO Indicator prices (US cents/lb) as of 10/11/2010. The table includes columns for the indicator name, price, and change. Below the table, there are sections for 'News from the ICO', 'Job opportunities', 'Coffeeline database', 'Monthly Coffee Market Report', and 'World Coffee Conference 2010'. There are also links to 'ICO CoffeeClub Network' and 'Signature of the International Coffee Agreement 2007 - Paraguay'.

ICO Indicator prices (US cents/lb)	10/11/2010	change
ICO Composite	160.82	-2.1%
Columbian Milds	251.69	-1.4%
Other Milds	241.15	-1.6%
Brazilian Naturals	198.32	-1.8%
Robustas	95.10	-4.2%

In fulfilling its role as the ICO’s primary point of contact, the Information Section continues to maintain the Organization’s profile and position with its diverse array of stakeholders across the global coffee community.

FINANCE AND ADMINISTRATION

The Organization currently employs 25 people of 12 different nationalities. As noted earlier in the Review, following the resignation of the Executive Director, Néstor Osorio, to take up the post of Ambassador of Colombia to the United Nations, José Sette is now Executive Director a.i. One long-serving member of staff retired during the year: Carmen Maqueda, Head of Personnel and Office Management, who served the Organization for over 35 years; and two others resigned (the Research Officer, Mauricio Galindo, and the Library Assistant, Helen Dooley).

The Organization is financed by contributions from Member Governments who pay a contribution based upon their average coffee exports or imports as a percentage of total exports or imports. The total expenditure budget amounted to £2.9 million in 2009/10.

The ICO has extensive conference facilities at its headquarters in London. The conference facilities host the Organization's regular meetings, seminars and workshops, but are also hired out to other international organizations and commercial entities. Despite the difficult economic climate, use of the facilities by external bodies has remained robust over the last two years because the conference rooms represent not only an attractive venue for parliamentary style meetings and presentations, but also constitute one of the few facilities in the United Kingdom which can provide simultaneous interpretation.

Board Room

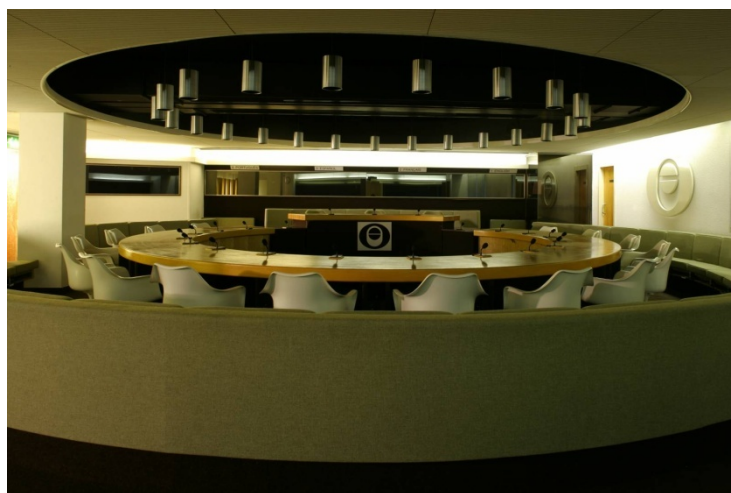


Photo courtesy of John Ross

OFFICE HOLDERS

International Coffee Council (2009/10)

Chairman: Rodolfo Trampe Taubert (Mexico) ■ **1st Vice-Chairman:** Abdoulaye Nana (Cameroon)

Executive Board (2009/10)

Chairperson: Ina Grohmann (Germany) ■ **Exporting Members:** Brazil, Colombia, Costa Rica, Côte d'Ivoire, Guatemala, India, Tanzania, Vietnam
■ **Importing Members:** European Union (EU, Belgium, Germany, Italy, Spain), Norway, Switzerland, United States of America

Private Sector Consultative Board (2009/10 – 2010/11)

Chairman: Rodolfo Trampe Taubert (AMECAFÉ) ■ **Vice-Chairman:** Robert Nelson (NCA of USA) ■ **Producer representatives:** Colombian **Milds:** Asociación de Exportadores de Café de Colombia (ASOEXPORT) ■ *Sociedad Exportadora de Café de las Cooperativas de Caficultores (EXPOCAFE)* ■ *Federación Nacional de Cafeteros de Colombia* ■ Eastern African Fine Coffees Association (EAFCA) ■ **Other Milds:** Asociación Nacional del Café (Anacafé) ■ *Asociación Mexicana de la Cadena Productiva del Café (AMECAFE)*, ■ Coffee Exporters Association of India ■ *Speciality Coffee Association of India* ■ **Brazilian and Other Natural Arabicas:** Associação Brasileira da Indústria de Café (ABIC) ■ *Associação Brasileira da Indústria de Café Solúvel (ABICS)* ■ *Conselho dos Exportadores de Café do Brasil (CeCafé)*, ■ *Confederação da Agricultura e Pecuária do Brasil (CNA)* ■ *Conselho Nacional do Café (CNC)* ■ **Robustas:** Association of Indonesian Coffee Exporters (AEKI) ■ *Uganda Coffee Trade Federation (UCTF)* ■ Comité de Gestion de la Filière Café-Cacao de Côte d'Ivoire (CGFCC) **Consumer representatives:** All Japan Coffee Association (AJCA) ■ Coffee Association of Canada ■ European Coffee Federation (ECF) ■ Institute for Scientific Information on Coffee (ISIC) ■ National Coffee Association of the USA (NCA) ■ Specialty Coffee Association of America (SCAA) ■ Speciality Coffee Association of Europe (SCAE) ■ *European Decaffeinators Association (EDA)*

Note: Alternates are shown in italics

Promotion Committee

Chairman: Michael Wheeler (Papua New Guinea)

Statistics Committee (2009/10)

Chairman: Thiago Siqueira Masson (Brazil) ■ **Exporting Members:** Thiago Siqueira Masson (Brazil), Marcela Urueña Gómez (Colombia) ■ **Importing Members:** Rob Simmons (UK), Neil Rosser (Germany) ■ **Executive Director:** David Brooks (USA), Corneille Tabalo (D.R. Congo)

Finance Committee (2009/10)

Chairman: Michael Wheeler (Papua New Guinea) ■ **Exporting Members:** Brazil, Colombia, Côte d'Ivoire, Papua New Guinea ■ **Importing Members:** EU – Spain, Norway, Switzerland, USA

Virtual Screening Committee

Chairman: Executive Director ■ **Exporting Members:** Brazil, Côte d'Ivoire, Guatemala, Indonesia ■ **Importing Members:** Germany, Italy, Spain, USA
