

NESCAFÉ

# ICO ROUND TABLE ON EQUITABLE TRADING AND COFFEE

**MAY 18, 2004**

**The Role of the Coffee Industry in Importing Countries in Poverty Reduction**

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1/19  
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## OUTLINE OF PRESENTATION

1. Nestlé and Fair Trade
2. NESCAFÉ sales' growth and consequent contribution to green coffee utilisation
3. Nespresso Activities, Nestlé's specialty/gourmet coffee sector
4. NESCAFÉ factories in Developing Countries, and in particular in Green Coffee Producing Countries
5. Direct procurement and technical assistance to farmers
6. Nestlé involvement in Green Coffee Sustainable initiatives
7. The role of the coffee industry in importing countries in poverty reduction : Nestlé example

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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

## 1. NESTLÉ AND FAIR TRADE MOVEMENTS

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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

### 1. NESTLÉ AND FAIR TRADE MOVEMENTS

- Fair Trade contributes to raise awareness among the general public of the coffee farmers situation.
- Nestlé has to consider Fair Trade approach from a mainstream viewpoint (not niche sector). Comparison between prices guaranteed to farmers by FT and production cost demonstrates encouragement to over production.

Synopsis, guaranteed prices and production costs :

Type of coffee	Price guaranteed by FT movements cts/lb	Production costs, cts/lb Technoserve – McKinsey 2003 ***
Washed Arabica	124* - 126**	Colombia : 70 to 90
Non-washed Arabica	120	Brazil : 30 to 40
Washed Robusta	110	
Non-washed Robusta	106	Brazil : 17 to 23 Vietnam : 24 to 28 Indonesia : 25 to 30

\* South America  
\*\* Central America, Mexico, Africa, Asia  
\*\*\* Five first producing countries : about 75 % of world production

4/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

### 2. NESCAFÉ SALES' GROWTH, AND CONSEQUENT CONTRIBUTION TO GREEN COFFEE UTILISATION



5/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

### 2. NESCAFÉ SALES' GROWTH, AND CONSEQUENT CONTRIBUTION TO GREEN COFFEE UTILISATION

- It is often requested that Manufacturers increase their efforts in order to boost coffee consumption.
- From 1990 to 2002 :
  1. Coffee beverages (R&G and Soluble) market growth worldwide, all sectors together : ~ + 18 %
  2. R&G market growth : ~ + 9 %
  3. Soluble growth : ~ + 40 %

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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 3 . NESPRESSO ACTIVITIES





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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 3. NESPRESSO ACTIVITIES, NESTLÉ'S SPECIALTY/GOURMET COFFEE SECTOR

- DEVELOPMENT OF SPECIALTY COFFEE IS OFTEN POINTED OUT AS ANOTHER SOLUTION TO COFFEE CRISIS (ONE OF THE 2 MAIN CONCLUSIONS OF TECHNOSERVE / MCKINSEY STUDY)
  - NESPRESSO is Nestlé's gourmet/specialty coffee business
  - Roast and Ground, contained in individual one cup servings
  - Best SHG/SHB Arabicas from Central America, Colombia and East Africa
  - Implementing traceability up to farms



8/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 4 . NESCAFÉ factories in Developing Countries, in particular in Green Coffee Producing Countries



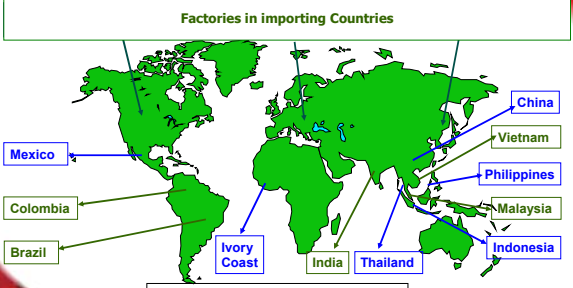
9/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 4 . NESCAFÉ factories in Developing Countries, in particular in Green Coffee Producing Countries

Factories in importing Countries



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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 4 . NESCAFÉ factories in Developing Countries, in particular in Green Coffee Producing Countries

- 55 % of NESCAFÉ is produced in Developing Countries, primarily the Green Coffee Producing Countries (former slide).
- The 11 NESCAFÉ factories in Green Coffee Producing Countries provide employment to thousands of people (farmers, other suppliers, contractors, employees, etc.). The added value is left where it is generated, i.e. in the Producing Country.
- Total volume of green coffee used by Nestlé in 2003 : approx. 750'000 t (12 % of world production).

11/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

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### 5 . Direct Procurement and Technical Assistance to Coffee Farmers



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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**5 . Optimising the supply chain by Direct Procurement and improving farms' sustainability by Technical Assistance given to Coffee Farmers**

- 1. Six NESCAFÉ factories in Green Coffee Producing Countries are supplied by a direct procurement :** China, Philippines, Indonesia, Thailand, Ivory Coast & Mexico. Farmers can deliver directly to Nestlé buying stations, by-passing intermediaries, thus receiving a higher % of FOB price. Always paid according to quality (m.c. & defects). Good traceability. Volume : 110'000 t in 2002.
- 2. Of these 6 factories, 5 give technical assistance to farmers (with Nestlé Agronomists) :** China, Thailand, Mexico, Indonesia & Philippines. Advising Good Agricultural Practices, based on sustainable approach, including DIVERSIFICATION, quality factors, etc. (three Experimental and Demonstration farms).

13/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**6 . NESTLÉ INVOLVEMENT IN GREEN COFFEE SUSTAINABLE INITIATIVES**



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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**6 . Nestlé involvement in Green Coffee Sustainable initiatives**

**NESTLÉ IS INVOLVED IN THREE SUSTAINABLE COFFEE PLATFORMS WHICH COMPLEMENT EACH OTHER :**

- 1. SAI-Platform and specifically the SAI-Platform Green Coffee Working Group (Ecom, Efico, Kraft, Nestlé, NKG, Sara Lee/DE, Tchibo, Volcafé).** Web site : <http://www.saiplatform.org>
- 2. "Common Code for the Coffee Community" : all Stakeholders. To produce a Code based on Sustainability's 3 pillars. Nestlé member of Steering Committee and of two Working Groups.** Web site : <http://www.sustainable-coffee.net/>
- 3. UNCTAD - IISD initiative, "Sustainable Coffee Partnership" : all Stakeholders. Organising a forum for sustainable coffee implementation (possible ICO committee). Nestlé involved.**

**IN ADDITION TO DOCUMENTS : PILOT PROJECTS.**

**ALWAYS CONSIDERING THE MAINSTREAM SECTOR.**

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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**7 . Summary of the contribution of the coffee industry in poverty reduction**

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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**7 . Summary of the contribution of the coffee industry in the importing countries in poverty reduction**

**NESTLÉ EXAMPLE, INCREASING DEMAND AND BEING PRESENT AT ORIGIN**

**A. INCREASING DEMAND OF COFFEE :**

- 1. Mainstream sector :**
  - ✓ innovation, renovation, marketing activities, etc.
  - ✓ Result : soluble coffee consumption has increased by 40 % in volume during the last 12 years.
- 2. Specialty coffee : Nespresso**
- 3. Coffee image : Improve the image of the world's favourite beverage, involvement in "Positively Coffee"**

17/19  
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The Role of the Coffee Industry in Importing Countries in Poverty Reduction

**7 . Summary of the contribution of the coffee industry in importing countries in poverty reduction**

**NESTLÉ EXAMPLE, INCREASING DEMAND AND BEING PRESENT AT ORIGIN**

**B. BEING PRESENT AT SOURCE :**

- 1. Contribute to implement/improve sustainability of farms :**
  - ✓ Participation into Sustainable platforms
  - ✓ Implementing Pilot Projects
- 2. Contribute to optimise supply chain (shortening), providing farmers with higher green coffee price :**
  - ✓ Direct procurement schemes.
- 3. Produce finished-products in the green coffee producing countries themselves, creating added value & employment on the spot.**

18/19  
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