



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

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Private Sector Consultative Board
Extraordinary meeting
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London, England

**The Future of the International
Coffee Agreement (ICA) 2001**

**Communication from the
National Coffee Association of U.S.A., Inc.**

Background

1. At its meeting in May 2006, the PSCB considered a communication on the future of the 2001 Agreement from the National Coffee Association of U.S.A., Inc. (NCA) contained in document PSCB No. 85/06. In order to prepare its submission to the Council in September, the PSCB noted that a longer document from the NCA would be circulated for comment by representatives by 30 June 2006, following which a revised version would be circulated reflecting suggestions received. The PSCB will consider the final version of this document at an extraordinary meeting on 24 September and will present its views on the future of the 2001 Agreement to the International Coffee Council at its 96th Session from 25 to 29 September 2006.

2. A copy of the NCA document is attached. This document is being sent to all ICO Members to keep them informed of proposals under consideration by the private sector.

Action

The PSCB is requested to consider this document.

The Future of the International Coffee Agreement National Coffee Association of U.S.A.

Background

As an inter-governmental organization with formalized private sector involvement, the International Coffee Organization (ICO) is uniquely positioned to deliver value that benefits governments and the many facets of the coffee economy. Inherent to the success of the Organization is the development of a vibrant, relevant organization that meets the future needs of its Members and the global coffee industry.

The ICO has been in existence for over 40 years. Although the ICO has served its Members and the global industry during this period, with the expiration of the 2001 International Coffee Agreement the ICO has an opportunity to recreate itself in a manner that effectively and efficiently serves its stakeholders with unsurpassed value. An opportunity exists to create a model organization that breaks away from the past and creates a modern, relevant organization that other commodity organizations seek to emulate.

As the industry has changed significantly in the past four decades, so must the ICO to ensure its relevancy, attractiveness and value to Members. Ensuring the delivery of value rests on a sound, modernized and applicable foundation; this foundation is the International Coffee Agreement. Most importantly, the International Coffee Agreement must be a focused organizational charter that clearly articulates priorities, recognizes the capacity of the organization and aspires to delivering excellence within select areas of high impact rather than trying to be all things to all people.

ICO Mission

No organization is effective without a clearly articulated mission. A concise, sharply focused mission statement is a critical touchstone for decision-making and organizational effectiveness. A solid mission statement will provide internal direction and facilitate the Organization's focus on the development and deployment of assets.

It is suggested that the ICO adopt the following mission statement:

Strengthen the global coffee industry in a free market environment, including the sustainable expansion of the market, through leveraging private sector/public sector cooperation for the betterment of all participants in the coffee value chain.

This mission directly ties into current needs of the global industry and builds upon the unique private-public partnership created under the 2001 Agreement.

Recommendations

Recognizing the finite length of the International Coffee Agreement, the importance of executing the mission of the Organization during this period, and the best use of limited resources, it is strongly suggested that the Organization focus its work and objectives on the following target areas:

- Information technology
- Market dynamics
- Sustainability
- Innovation
- Research and development
- Promotion and education

I. Information Technology – Infrastructure

An overwhelming amount of information that could benefit all levels of the coffee value chain has been developed by many disparate entities. Tremendous benefit would be provided to Members, and the industry at large, by the ICO acting as a clearinghouse for coffee information.

In that context, the ICO would fulfill a much-needed role by developing a virtual library of coffee research and information that is comprehensive in nature and accessible by design, engaging a searchable Web-based database.

II. Market Dynamics

Recognizing the reality and importance of the free marketplace in which the coffee industry operates, the ICO can deliver value by focusing on: transparency in the marketplace, risk management, supply-chain management, and the elimination of trade barriers.

A. Transparency

The basis of a free market system is transparency in the marketplace. Transparency in the marketplace and expanded market access will guarantee the producing world the unique leverage it deserves as the source of the supply of coffee, in demand the world over. Market transparency not only protects producers' crop equity, but also enhances fair competition among them.

Market transparency is critical to making sound production decisions. To operate efficiently and effectively in the marketplace, all players must have accurate data on who is producing what, where the product is going, historical pricing patterns and real-time, current futures prices.

Most importantly, reliable statistics on the entire supply chain are critical to a balance between supply and demand. As such, appropriate emphasis must be placed on developing a state of the art statistics gathering and dissemination program.

B. Risk Management

Volatility is the one given in the coffee sector. Coffee farmers must be provided with a complete menu of risk management alternatives, and provided with the knowledge not only to wisely choose from the alternatives but also to effectively employ the choice.

For purposes of the ICO, “risk management” should be thought of in broad terms, well beyond the narrower consideration of the futures market – price discovery mechanism. A comprehensive approach to risk management would entail developing and disseminating relevant information/programs on risk management techniques and concepts such as: diversification (agricultural and non-agricultural), forward pricing, alternative financing, long-term contracts, and buying cooperatives that would facilitate producers in the joint purchase of commonly used items and products. The goal would be to ensure that producers fully understand the various risk management options available to them, thereby enabling them to make informed decisions on which mechanisms are appropriate for their individual operations.

C. Supply Chain Management

The atmosphere in which the coffee industry operates today demands an enhanced focus on supply-chain management, with global security being a prime objective. The ICO is poised to play a leading role in the strengthening of the security of the coffee supply chain by acting as a forum to address and develop protocols to ensure the safety of coffee as a food (including protecting it from intentional and unintentional contamination).

D. Elimination of Trade Barriers

The ICO has long held that trade barriers are obstacles to consumption, yet many trade barriers remain. For economic success to prevail, the ICO must strengthen its commitment to the removal of both tariff and non-tariff trade barriers. In achieving this purpose, the ICO is best served to recognize that non-coffee agriculture subsidies negatively impact the coffee industry.

III. Sustainability

The concept of sustainability, based on an economic/social/environmental model, has been discussed at the ICO for some time. The NCA recognizes that a sustainable industry is paramount to the future success of the industry. Likewise, the NCA recognizes the capacity of the ICO in this regard and the fact that there are other inter-governmental organizations and forums more appropriately dedicated to a prime mission of sustainability.

As such, the ICO is positioned to deliver achievable value and optimal deployment of resources by narrowly focusing its sustainability work in three areas: recognition of ISO third-party certification agency standards, establishment of a clearing house on global sustainability programs, and development of traceability and trackability programs. The ICO could also play a role in the global discussion of sustainability by hosting sustainability workshops designed to disseminate information, wherein non-governmental organizations could be encouraged to participate.

A. ISO Standards

It is expected that sustainability programs will continue to grow in scope and number. As such, there will be a growing demand for third-party certifiers. Agreement on the criteria for identifying reliable third-party certifiers will be paramount in creating a consistent global program for the coffee industry. Since ISO is a recognized standard-setting body and has developed standards for third-party certifiers, recognition of these standards by the ICO would be the most efficient and sound manner by which to provide consistency and build consumer confidence in sustainable coffees/marks.

B. Clearinghouse

Entities throughout the supply chain are regularly challenged with making decisions regarding the adoption of various “sustainable coffee programs” such as Fair Trade, Utz Kapeh, Rainforest, 4Cs, etcetera. Considerable efficiencies would be created in the supply chain through the development of a Web-based clearinghouse for global sustainability programs. Such a database should include information such as: volumes available, countries of operation, and administrative data.

C. Trackability/Traceability

Recognizing the growing demand for “certified” coffees, coupled with security concerns, the ICO would provide added value through the exploration and development of sound traceability/trackability processes/systems.

IV. Fostering Innovation

Tremendous value would be realized by utilizing the ICO as a catalyst to foster innovation in the coffee sector. As a result of integrated private sector-public sector integration present at the ICO, the Organization is uniquely positioned to fill a vacuum that exists in stimulating global innovation in a manner that benefits all in the global coffee category.

Acting as a catalyst in fostering innovation would provide additional needed direction to the ICO’s project work. The ICO’s relevancy and deliverable value would be enhanced through the development of specific, measurable criteria for the identification of relevant innovation projects that could then be directed to appropriate funding bodies.

The ICO could further achieve success in this area by acting as a vehicle to create partnerships with universities and think tanks. At a minimum, the ICO is positioned to prompt universities and think tanks to focus a portion of their resources on innovation in the coffee sector.

V. Science, Research & Development

The continued advancement and strength of the industry is dependent on investment in research and development. Through the combined resources of the private and public sector, the ICO is uniquely positioned to be a center for investment in the vibrant future of the industry by being a center of excellence for stimulating research and development.

Based on current and projected realities of the industry, a research and development program focused on the following would be highly beneficial and result in the betterment of the global coffee category: coffee gene pool, positive health aspects of coffee, processing at all levels of the value chain, waste management at all levels of the value chain, and food safety (including phytosanitary issues). Specifically, the ICO would play a valuable role in providing coordinated planning, assessment, and evaluation of research and development initiatives, and providing or facilitating access to research and development funds.

VI. Promotion

Ultimately, long-term economic strength for farmers is dependent on growing coffee consumption. The greatest opportunity for increasing consumption lies in the producing world and emerging markets.

The ICO must continue to play a leadership role in promoting international cooperation on coffee matters, but at the same time build on its efforts to promote increased global consumption. In achieving this goal it is important to promote quality within each market segment in a manner that enhances customer satisfaction¹.

VII. Education

The objectives in the 2001 Agreement appropriately define the ICO's role as an educator. Support, therefore, is rightfully given to mandate that the ICO continue to act as a center for and promote the collection, dissemination and publication of economic and technical information, statistics and studies, as well as research and development, on coffee matters. Further, the ICO is best served to continue to promote training and information programs designed to assist the transfer to Members of relevant coffee technology.

¹ It should be noted that the language used to describe quality is substantively different, expands on and clarifies the use of the sole term "quality" as presented in the 2001 ICA objectives.

VIII. Additional Issues

A. Consumers vs. Producers

Although the rigid divisions between exporter/producer and importer/consumer Members served the ICO well and were a necessity during the times of economic clauses, the industry has evolved since the early years of the ICA. Today, it is recognized that one global coffee industry exists. In fact, the strength of the industry is, in large part, a result of the partnerships that exist between all levels of the value chain. The removal of this artificial barrier, through an Agreement structured in a manner that encourages an issues-driven organization which promotes coalitions/collaboration based on issues rather than one's position on the value chain, will promote efficiency and higher value output, as well as more fully recognize the independence and sovereignty of members. This is not to suggest that independent coordination among importing and exporting Members, respectively, will not be needed or would not be useful at times.

Recognizing the benefits of an organization built more on a consensus model for decision-making, it is noted that there may be a limited necessity for a voting structure. In designing a voting system, equity may mandate that total votes are equally apportioned between importer and exporter Members; however, this system should not require distributive majorities, i.e. a majority among importing Members and a majority among exporting Members. Instead, the appropriate majority (i.e. simple vs. two-thirds) would be determined based on the number of collective votes cast by all Members regardless of their membership category.

B. Role of the Private Sector Board

The ICO is to be commended for its forward thinking in institutionalizing the role of the private sector through the codification of the Private Sector Consultative Board (PSCB) in the 2001 International Coffee Agreement. Since its founding, the Board has become a very useful tool in getting the ICO to focus on the needs of the industry. However, the relevancy of the Organization would be further enhanced by a strengthening of the PSCB.

A strengthened role for the PSCB will facilitate the Organization's efforts to adopt policy and programs that align with the realities of the commercial market. As such, it is critical that the PSCB is integrally linked to the decision-making process for project work. Such a new role can be embodied in a new Agreement, linking the PSCB more closely with ICO objectives, particularly regarding project work.

Likewise, it is important that systems are in place not only to allow for the PSCB to make recommendations, but to ensure that these recommendations are given appropriate weight in decision making and agenda setting. Recognizing that meeting agendas are literally the road maps for discussion and output, the PSCB would be strengthened through a formal process that allows for serious consideration of PSCB input on the development of the Council meeting agendas.

The effectiveness of the PSCB and the value it delivers to the Organization would be greatly enhanced by the designation of an ICO staff position with prime responsibility to the PSCB. Such an arrangement would greatly enhance the output of the PSCB and facilitate the ICO's ability to take full advantage of the PSCB value. Likewise, PSCB stature would be enhanced, and therefore be of greater value to the Organization, by converting PSCB observer status to a formal seat on the Council.

Finally, it is the position of the National Coffee Association that small producers are currently represented on the PSCB through the recognized producer associations from their respective countries. It is not the role of the ICO to dictate the individual(s) that these democratic institutions send as representatives. Should a situation exist, and the NCA is not aware of one, where non-democratic institutions are represented at the PSCB, a more appropriate role for the ICO might be making available institutional building assistance to these associations.

C. Projects

Opportunity exists to greatly strengthen the value of ICO project work. It is strongly suggested that a more strategic approach is adopted in selecting and recommending approval or funding for projects. Clearly articulated, objective criteria must be developed to evaluate project proposals. The development of such criteria should be preceded by thorough discussion and development of an overall strategic objective that delineates what it is that ICO project work is to accomplish collectively. Further, the criteria should include reference to the mission of the ICO, and all approved projects should further the mission of the Organization, with an eye for eliminating duplication. The PSCB can also serve as a valuable source of specific and pragmatic project proposals.

In addition to a sound and strategic approach to project identification and approval, the ICO project program would be greatly enhanced by the requirement that project reports are created and clearly delineate what worked and what did not. More importantly, dissemination of the valued results and effective use of the same, is dependent on the ICO creating a searchable Web-based database, organized by topic rather than individual projects.