



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

PSCB No. 93/06

25 September 2006
Original: English

E

Private Sector Consultative Board
27 September 2006
London, England

**The future of the International Coffee
Organization/Agreement**

Background

The Private Sector Consultative Board (PSCB) discussed the future of the International Coffee Agreement 2001 at an extraordinary meeting on 24 September 2006. The following document summarises its conclusions and recommendations.

Action

The Council is requested to note this report.

The Future of the International Coffee Organization/Agreement Private Sector Consultative Board

Background

As an inter-governmental organization with formalized private sector involvement, the International Coffee Organization 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 sector.

The ICO has been in existence for over 40 years. Although the ICO has served its members and the global sector 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 sector 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 identifies and 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. Additionally, the International Coffee Agreement should position the ICO as the authoritative body on matters directly or indirectly affecting the international coffee economy. The Agreement should promote mutually beneficial working relationships with related organizations, such as: FAO, UNCTAD, WTO, World Bank and others.

ICO Mission

No organization is effective without a clearly articulated mission. A concise, sharply focused mission statement is critical 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:

To strengthen the global coffee sector in a free market environment, including the continued expansion of the market in a manner that enhances producer well-being and consumer satisfaction while adding value through the coordination and encouragement of 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 sector and builds upon the unique private-public partnership created under the 2001 Agreement.

Recommendations

Recognizing the finite duration 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 clearing-house
- Market dynamics
- Sustainability
- Innovation
- Research and development
- Promotion and education

I. Information Clearing-house

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 sector at large, by the ICO, in a focused and pragmatic manner, expanding its role as a clearing-house for coffee information.

The ICO could achieve this 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. The ICO's "Coffee Line" is a basis for such a virtual library and should be evaluated for the purpose of expanding usability and substance.

II. Market Dynamics

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

A. *Transparency*

The basis of a free marketplace is transparency. Transparency in the marketplace and expanded market access benefits all participants in the coffee industry. Market transparency not only protects the equity of all industry participants, but also enhances fair competition among them and improves their ability to adapt to the requirements of a changing market.

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, analysis and dissemination programme that provides and uses advanced electronic technology, including Web based access. The analytical programme would be best developed to include the identification of trends, including niche market trends.

B. *Risk Management*

Volatility is the one given, but by no means desirable, factor 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 choose wisely from the alternatives but also to employ the choice effectively.

For purposes of the ICO, “risk management” should be thought of in broad terms, well beyond the narrower consideration of the futures market – a price discovery mechanism. A comprehensive approach to risk management would entail developing and disseminating relevant information/programmes on risk management techniques and concepts such as: diversification (agricultural and non-agricultural), forward pricing, alternative financing, long-term contracts, and buying cooperatives, as well as other risk management factors such as interest rates, currency exchange rates and climatic conditions that would assist producers in the joint purchase of commonly used items and products. The ICO should not have any direct influence on business decisions, but should 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.

In recognizing the capacity of the ICO and the importance of benefits gained by working with other organizations, it is recommended that the ICO pursue opportunities to work with the World Bank on the development of risk management techniques/programmes.

C. Supply Chain Management

The atmosphere in which the coffee sector operates today demands an enhanced focus on supply-chain management, with global security being a prime objective. Without detracting from the primary responsibility of the contract partners, 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 guidelines 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 and other forms of protectionism and encourage its Members to take the importance of the removal of trade barriers for the coffee economy in general and for commodity dependent developing countries in particular into full account in the wider discussions in WTO and bilateral trade agreements. In achieving this purpose, the ICO should recognize that non-coffee agriculture subsidies impact the coffee industry negatively, for instance if diversification is hindered by lack of market access for alternative products.

III. Sustainability

The concept of sustainability, based on an economic/social/environmental model, has been discussed at the ICO for some time. The PSCB recognizes that sustainability is paramount to the future success of the sector. While it is recognized that there are other inter-governmental organizations and forums more appropriately dedicated to a prime mission of sustainability in a general manner, the role of the ICO should be to translate the general principles for application in a coffee environment and to provide feedback on practical experiences in coffee to enrich the general debate.

The ICO is positioned to deliver achievable value and optimal deployment of resources by focusing its sustainability work in two areas: establishment of a clearing-house on global sustainability programs, and development of traceability and track ability 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. Clearing-house

It is expected that sustainability programs will continue to grow in scope and number. As such, there will be a growing demand for systems to ensure conformity and compliance,

including third-party certification. Agreement on the criteria for identifying reliable third-party certifiers will be paramount in creating a consistent global program for the coffee sector. Considerable efficiencies would be created in the supply chain through the development of a Web-based clearing-house for global sustainability programs. Such a database should include information such as: volumes available, countries of operation, and administrative data.

B. Track-ability/Traceability

Recognizing the growing demand for “certified” coffees, coupled with security concerns, the ICO would add value by providing information on entities possessing traceability and track-ability processes and/or systems.

IV. Fostering Innovation

Tremendous value would be realized by using the ICO as a catalyst to foster innovation in the coffee sector. As a result of the 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 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 sector 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 centre for investment in the vibrant future of the sector by being a centre of excellence for stimulating research and development.

Based on current and projected realities of the sector, a research and development programme 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; as such, resources should be concentrated on these markets, without ignoring the need to counter negative trends in established markets.

The ICO should 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, including both traditionally consuming and producing nations. In achieving this goal it is important to promote quality within each market segment in a manner that enhances customer satisfaction.

The ICO should be active in the promotion of scientific information based on sound and valid evidence covering areas of research and development with a special emphasis on food safety, the public perception of the healthiness of coffee and the means of communicating this message by suitable and appropriate methods.

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 centre 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 programmes designed to assist the transfer to Members of relevant coffee technology and encourage their implementation.

VIII. Additional Issues

A. *Producers' and Consumers' Collaboration*

Today, it is recognized that one global coffee sector 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. As such, the ICO should operate in a manner which encourages an issues-driven Organization which promotes coalitions/collaboration based on issues rather than one's position on the value chain; such a structure would 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 should be abolished.

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 sector. 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 suggested that the PSCB: 1. have a greater role in project work decisions, 2. have an opportunity to provide input into the development of the Agenda for the Council and, 3. have an ICO officer/employee assigned with the primary responsibility of working on PSCB issues.

It is critical that the PSCB is integrally linked to the decision-making process for project work. Ideally, the PSCB would have the opportunity to comment on project proposals after having the benefit of reviewing the Virtual Screening Committee's comments.

Similarly, it is important that systems are in place not only to allow 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 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 for 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's value.

Finally, it is the position of the Private Sector Consultative Board that small producers are currently fully represented on the PSCB through the democratically 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.

C. Projects

The opportunity exists to strengthen the value of the ICO's project work significantly. It is strongly suggested that a more strategic approach is adopted in selecting and recommending

approval or funding for projects. Clearly articulated, objective criteria should 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 the 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's project programme 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.

24 September 2006