



Sustainable
Coffee
Partnership

The International Coffee Agreement 2007

An Instrument for Building a Sustainable Coffee Economy

Jason Potts,
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1. Introduction

Over 2005 and 2006, the International Coffee Organization (ICO) proceeded with negotiations for the renewal of the International Coffee Agreement 2001. The concept of sustainable development was present throughout all aspects of the negotiations and found more explicit reference in the resulting 2007 Agreement than in any previous agreement. In addition to pre-ambular recognition of the importance of sustainability in contributing to “enhanced employment and income, and better living standards and working conditions” and to the achievement of the Millennium Development Goals, the “chapeau” of Art. 1 (Objectives) states the overall objective of the ICA 2007 as the “sustainable expansion [of the coffee sector] in a market-based environment.”¹

These initial references to “sustainability” and “sustainable development” within the context of the ICA 2007 clarify the role of sustainability as one of the defining elements of the entire Agreement. Notably, the qualification of all of the sub-objectives listed within Art. 1, by the generalized objective of “sustainable expansion” sets forth sustainability not simply as “one issue” among others, but rather as a broad guiding principle that informs all of the ensuing articles within the Agreement.²

In 2006, the Sustainable Coffee Partnership presented a document entitled “Leveraging the Market for a Sustainable Coffee Economy,” wherein a number of opportunities for incorporating sustainability within the new Agreement were identified. Delegates within the ICO membership took up elements of the document within the negotiation process, which gave rise to the addition of new language within the Agreement, reflecting the objectives of sustainable development.

And while the new ICA treads on new ground in terms of the centrality it gives to sustainable development, many of the provisions within the new Agreement set forth a foun-

ation for implementation without specifying the process, content or mechanisms for building upon that foundation. This document, drawing from the key priority areas for building the sustainability identified by the Sustainable Coffee Partnership (namely, participatory governance, market information, capacity building and finance), as well as its previous background document “Leveraging the Market for a Sustainable Coffee Economy (2006),” identifies the following list of “opportunities” as Members move towards the implementation of the new Agreement in accordance with its core sustainability objectives.

2. Participatory Governance

Participatory governance is one of the underlying pillars of sustainability under the Earth Summit process.³ Building on the ICO’s strong spirit of international cooperation, not only among consumer and producer governments, but also across the private sector more generally,⁴ Art. 31 of the new ICA provides for the formation of a “Consultative Forum on Coffee Sector Finance.” One of the achievements of Art. 31 is its “mandatory” reference to the inclusion of “representatives of Members, intergovernmental organizations, financial institutions, the private sector, non-governmental organizations, interested non-Member countries and others with relevant expertise” (Art. 31(2)). Art. 31(3), on the other hand, gives the Council the authority to determine the appropriate governance structure for the Consultative Forum.

Implementation Opportunities

The affirmative inclusion of non-Member stakeholders in the Consultative Forum represents a bold step by the organization towards the implementation of a participatory process that reaches beyond the traditional “Member-based” confines of international commodity bodies and, as

such, represents an invaluable mechanism for the promotion of broader participatory decision-making in strategic planning on coffee matters at the global level. Given the fundamental role of finance and investment as drivers of market-based change for sustainable development, the importance of the Consultative Forum on Coffee Sector Finance in this regard should not be underestimated.

Formation of a Multi-stakeholder “Consultative Committee on Coffee Finance”

In order to ensure that the forum does, in fact, serve to expand participatory decision-making and strategy formation towards the implementation of sustainable development, the Council could consider the establishment of a multi-stakeholder “Committee on Coffee Finance” as the principal organizing entity for the Forum’s activities and strategic development. Such a committee should ensure wide and equitable representation of both consuming and producing countries, private sector, non-governmental, research and public sector representatives as per Art. 31(2) (see Appendix 1 for a possible draft structure for a Consultative Committee on Coffee Finance).

3. Market Information and Statistics

To date, with some exceptions, the ICO has focused its regular statistical analysis on the four major coffee quality groups. However, as the coffee market becomes increasingly differentiated, the regular provision of up-to-date data on prices and production in *differentiated* coffee markets is becoming more and more important to the development of sustainable production strategies for farmers and producer countries alike. Accurate market information is a prerequisite to sound economic planning and development for producer farms, organizations and countries. Art. 1(6) of the ICA 2007 highlights “collecting, disseminating and publishing economic, technical and scientific information, statistics and studies, as well as the results of research and development in coffee matters” as one of the core objectives of the Agreement. The authority of the Secretariat to implement this objective is provided in Chapter XII (Art. 32–34) of the Agreement.

Art. 32 (Statistical Information) gives the Council the broad authority to oblige Members to furnish statistical information according to its rules and requirements. Art. 33 obliges Members to maintain a system of “Certificates of Origin” in order to facilitate statistics gathering and analysis.

Art. 34(1), on the other hand, (Studies, Surveys and Reports) mandates the ICO to prepare “studies, surveys, technical reports and other documents” of importance to the coffee sector. Art. 34(2) specifically notes studies on the “coffee value chain,” management of financial risk and “sustainability aspects of the coffee sector” as possible areas where the Secretariat may report. Art. 34(3) a and b, specifically mandate the Secretariat to report, where “technically feasible,” on differentiated markets.⁵ Finally, Art. 34(5) obliges the Secretariat to “place specific emphasis on facilitating access to small coffee producers.”

Implementation Opportunities

Enhancing the ICO’s Statistics Gathering Capacity

Pursuant to Art. 32, the Council could require Members to provide information on the rates of production, export and consumption of coffees with respect to specialty markets and widely recognized standards markets. In order to facilitate this process, additional qualifiers relating to commonly recognized certifications and specialty categories could be added to the rules associated with completing Certificates of Origin (Art. 33).⁶

In order to enable accurate statistical reporting on specialty, niche and standards-based markets, the Council could also, to the degree appropriate and/or necessary, consider the elaboration of new tariff classifications based on consumer markets and processing and production methods and other bases for market differentiation (e.g., Certifications). At the very least, the specialized tools for enabling more accurate reporting on differentiated coffee markets should be provided to Members in order to facilitate more detailed reporting on market trends and dynamics.

Defining a Work-plan Based on Regular Reporting on Differentiated Markets and Improved Market Access

In order to enable more complete reporting according to the specifications outlined in Art. 34, the Council, pursuant to Art. 34(4), should establish a work-plan which provides for regular reporting on differentiated markets based on clearly identified categories.⁷ The reporting should be provided according to a schedule and form a part of the ICO’s ongoing statistical reporting activities. In addition to pure reporting on statistics, the ICO should provide up-to-date “state of the art” information on trading, marketing and financial management.

Build Real-time Web Data on Prices and Other Vital Statistics for Differentiated Coffee Markets

The coffee sector currently has no means for tracking price fluctuations in differentiated markets. Part of the challenges lies in the absence of any system that can track such prices. The ICO could explore technical instruments for tracking aggregate prices of specialty and other differentiated coffees, including options related to the establishment of “S” contracts and markets. The ICO could work directly with industry in facilitating developments in this arena. The ICO could develop, in co-ordination with other multilateral agencies (such as the ITC, FAO and UNCTAD), a “coffee portal” that offers a one-stop shop for all relevant coffee information for producers, traders and consumers.

Allocation of Sufficient Resources to Statistics and Reporting

Art. 34(4) specifies that statistics and related reporting are to be paid out of the administrative budget and/or external funding sources. In order to meet the information needs of the sector, the Secretariat needs to have access to significantly increased resources. Ideally sufficient resources would be

provided directly through the membership dues in order to ensure fairness and commitment over the longer term. If, however, external resources are needed, they should be sought through “medium- to long-term” partnerships with donors in order to enable the requisite investment in information infrastructure development at the Secretariat.

4. Capacity Building and Technical Assistance

Many of the world’s coffee-producing regions remain highly underdeveloped and, as a result, are in dire need of technical assistance and infrastructural support in order to effectively participate in international markets. Through the liberalization and structural adjustment policies of the 1980s and 1990s, traditional support institutions at the local level have been dismantled, leaving deep gaps in meeting structural assistance needs for coffee farmers. At the same time, with markets being increasingly defined by quality, technical and sustainability requirements, farmers are experiencing a growing need for technical assistance on the ground. Although the ICO has historically relied heavily upon the Common Fund for Commodities (CFC) as a funding source for its project priorities, new priorities within the CFC, as well as the transaction costs associated with CFC funding, suggest that the ICO needs to make a concerted effort in securing non-CFC sources.

Art. 1(8) of the ICA 2007 specifies the objective of “developing, evaluating and seeking finance for projects that benefit Members and the world coffee economy.” Art. 28(2), on the other hand, mandates the Council to, “establish procedures and mechanisms for submitting, appraising, approving, prioritizing and funding projects, as well as for their implementation, monitoring and evaluation, and wide dissemination of results.”

Implementation Opportunities

ICO Project Committee

The ICA 2007 highlights the importance of project development and management within the ICO, but does not specify any specific procedures for doing so. The first order of business in this area of responsibility should be toward the establishment of clear rules based on agreed upon priorities for project selection and development. The ICO should establish a “project committee” for establishing such rules and project priorities based on the annual strategic plan (Art. 9). The ICO’s project committee should build in explicit mechanisms for integrating and working with the Consultative Forum on Coffee Finance (see below).⁸

Project Development Linked to Consultative Forum on Coffee Sector Finance

The Consultative Forum on Coffee Sector Finance should dedicate a significant portion of its work towards the identification, prioritization and funding of capacity building projects for the coffee sector. The prioritization and funding process for projects, although remaining the authority of

the Members to decide, pursuant to the ICO’s annual strategic plan (per Art. 9), should be linked to the results and priorities identified within the context of the “Consultative Forum on Coffee Sector Finance” outlined in Art. 31. By building on the expertise, knowledge and ongoing activities of stakeholders and researchers throughout the coffee community, the ICO’s overall fundraising and project development capacity, as well as relevance, could be significantly enhanced. A representative and participatory multi-stakeholder process for the strategic development of projects and project financing should therefore be established within the auspices of the Consultative Forum (see Section 2 – Participatory decision-making above and Appendix 1 below).

Project Information Clearing House

Building effective project development and collaboration, depends upon knowledge and understanding of the ongoing “project context.” What projects have been implemented where and when, as well as what their successes and failures were, is critical information for ensuring advancement in project implementation. Pursuant to these broad powers, the Council could establish a “project information clearing house” as an initial means to enabling more informed, coherent and effective project planning, while allowing for enhanced synergies between ongoing and forthcoming Member-based projects.

5. Improving Access to Finance and Credit

Rapidly changing market conditions require timely, targeted and efficient technical assistance interventions. With the disappearance of locally-based institutions and resources for extension and other technical assistance, there is a growing need for the international community to formalize commitments for the provision of assistance specifically designed to fill the gaps left by existing funding and extension services across the five pillars outlined above. At the same time, the seasonal nature of coffee production combined with rapidly changing market conditions persistently requires coffee producers to invest savings and capital in the maintenance and development of their production systems. Access to capital and finance is also a prerequisite to the effective use of contemporary risk management tools.

These three areas—technical assistance, seasonal and term investment and risk management—are all key stepping stones to enabling more efficient and, ultimately, more sustainable business management. All three areas, however, are also fundamentally dependent upon access to finance—in the form of both grants and credit. In the past, the ICO has relied heavily upon the Common Fund for Commodities as a the pre-eminent source of capital for investment in coffee projects and infrastructure, however, new priorities at the level of the CFC will lead to reduced investments in the coffee sector for the foreseeable future. At the same time, developments within the sector are producing a growing need for *fast* and *flexible* access to finance—particularly at the level of the SME producer organizations.

The ICA 2007 specifies the need for small producers to have enhanced access to information on options for finance (Art. 1(13); Art. 34(2)) as well as enhanced access to finance itself (Art. 1(8); Art. 31(1)). Art. 31 (Consultative Forum on Finance) and Art. 34 (Studies, Surveys and Reports) provide the main basis for implementing these objectives within the agreement.

Art. 31(1) mandates the Council convene the Consultative Forum on Coffee Sector Finance to “facilitate consultations on topics related to finance and risk management in the coffee sector, with a particular emphasis on the needs of small and medium-scale producers and local communities in coffee producing areas,” while Art. 31(2) obliges the Council to include representatives from major coffee stakeholder groups in the Forum process.

Implementation Opportunities

Reporting on Finance Needs and Obstacles

Following from its mandate to manage and compile studies, surveys and reports, the ICO secretariat could prepare a dedicated series of reports identifying the needs and obstacles facing small producer access to credit across the coffee producing world. Research on finance issues conducted by the Secretariat pursuant to Art. 34(2) should feed directly into the Consultative Forum (Art. 31(3)) in order that it might determine the appropriate means for action across the global coffee supply chain.

Mandate a Multi-stakeholder Consultative Committee to Identify Priority Areas for Finance Work

While research and reports on finance should be managed by the Secretariat, a multi-stakeholder “Consultative Committee on Finance,” drawing from its wider stakeholder and supply chain base, should have the mandate of establishing the priorities for more concrete action. While these priorities need to be established by the rules and procedures set forth under the Consultative Forum, two core areas for consideration in initial deliberations are:

1. Finance and Risk Management Information Access Point:⁹ To the extent that information on financing options is, itself, a core obstacle to enhanced producer access to finance, the Consultative Forum, in collaboration with the Secretariat, could implement a finance and risk management information access point designed to provide information on potential financial services as well as tools for improving access to such services.
2. Special Partnership Fund:¹⁰ Based on the need for new and more flexible sources of financing in order to enable speedy adaptations to market requirements and conditions, a specialized Finance Fund could be established according to priorities established under the Consultative Forum. This could be in the form of a single global fund or in the form of multiple-theme specific “trust funds.” Alternatively, a streamlined mechanism for soliciting funds from donor agencies, based on priorities identified by the Consultative Forum on Finance, could be established.

6. Conclusion

This overview is designed to provide a bird’s eye picture of opportunities for the implementation of the ICA 2007 in a manner that reflects the principal sustainability objectives of the Agreement. At the same time, it is very clear that pursuing any one or more of these “opportunities” in the implementation will require considerable investigation, discussion and, ultimately, political will, in order to give them full force and impact. As such, the observations and suggestions captured here should be read as an initial input into such discussions.

Appendix 1: Basic Functions and Framework for a Multi-stakeholder “Consultative Committee on Coffee Finance”

1. Objectives of the Committee

The Committee would have the following general objectives:

- To improve access to and liquidity in coffee sector finance on a global level, particularly for smaller producers
- To facilitate coherence and information exchange between diverse private and public sector investments in the coffee sector with a view to improved efficiency and impact

- To provide strategic guidance for project investment and financing in the coffee sector
- To facilitate increased investment in the coffee sector

2. Structural outline of the Committee

In order to ensure the most equitable representation while retaining an efficient and workable group of stakeholder representatives, the following structure is proposed:

Group	Representation
1. ICO Executive Director	1, the ED and his designated staff representatives including Management Unit
2. Elected Chairperson and Vice-Chairperson	1 + 1 person elected by the Committee to chair the Committee
3. Exporting members of the ICO	2 + 2 alternates
4. Importing members of the ICO	2 + 2 alternates
5. Coffee industry (producing and consuming)	2 + 2 alternates
6. Coffee trade (producing and consuming)	2 + 2 alternates
7. NGOs	2 + 2 alternates
8. Small producer organizations	2 + 2 alternates
9. Intergovernmental organizations	2 + 2 alternates
10. Academic/research organizations	2 + 2 alternates

Committee members would be selected by the Council.

3. General functions of the Committee

The Consultative Committee on Coffee Finance would be responsible for the organization of the regular activities of the Consultative Forum on Coffee Sector Finance, including but not limited to:

- The organization of an annual Global Consultative Forum on Coffee Sector Finance
- The organization of supporting events, workshops and reports on coffee sector finance, investment and project development
- An advisory and consultative role to the ICO to make representations to the Council in its areas of concern.

Depending on the need, the Committee would meet between two and four times a year to coincide with other ICO meetings with potentially more frequent meetings for specialized sub-committees, although these would be largely conducted using electronic media.

4. Possible Structural Relationship of the Committee with other Related ICO Committees

In order to ensure maximum economies of scale and efficiency the Committee and its activities would need to be organized so as to complement but not repeat the tasks of other Committees of the ICO. The following listing of the objectives and tasks of other relevant ICO committees

foreseen under the ICA 2007, provides a description of how the proposed Consultative Committees might interact with those of other ICO committees.

ICO Committee on Coffee Sector Finance: Provides a global multi-stakeholder perspective, and forum, for leveraging external resources and investment in the coffee sector. The Committee does so by promoting two branches of activity: 1. the facilitation of global tools, discussion and strategy on financing and risk management for the coffee sector; and 2. the identification of shared, inter-institutional approaches to project development and investment. Operates in a consultative capacity to the ICO.

ICO Project Committee: Responsible for the development of ICO core project priorities. Develops the official position and strategy of the ICO and its Members through a regular and systematized analysis of projects proposed by ICO Member representatives. The Committee on Coffee Sector Finance seeks ways to support the ICO Project Committee Priorities, but also seeks ways to link ICO activities with non-ICO coffee projects and activities in a more coordinated manner.¹¹

ICO Statistics Committee: Responsible for the preparation of official ICO statistics. Provides a key foundation for, among other things, discussion and decision-making in the Committee on Coffee Sector Finance and the Project Committee.

Notes

- 1 Art. 1.3 goes on to specify that this will be done by, *inter alia*, “encouraging Members to develop a sustainable coffee sector in economic, social and environmental terms.”
- 2 See the Vienna Convention on the Interpretation of Treaties; see also the WTO Appellate Body on its interpretation of references to “sustainable development” within the context of the GATT 1994.
- 3 Paragraphs 23.1 and 23.2 of Agenda 21 not only emphasize the need for participatory governance for ensuring sustainable development, but also “the need for new forms of participation.” UNCED, *Report of the United Nations Conference on Environment and Development, Annex II—Agenda 21 A/CONF.151/26* Aug. 12, 1992.
- 4 The Private Sector Consultative Board provides for wide representation of the private sector in its mandated structure. The PSCB’s formal position within the ICA 2007 (Art. 29) helps ensure regular private sector input into the ongoing activities of the ICO—however, it provides no formal mandate for the inclusion of other stakeholders in its deliberations.
- 5 Art. 34(3) a and b refer to the reporting on “(a) quantities and prices of coffees relating to factors such as different geographic areas and quality-related conditions of production; and (b) information on market structures, niche markets and emerging trends in production and consumption.”
- 6 Under current rules, certificates of origin require specification of the coffee type according to the main coffee groups as well as whether or not the coffee is “organic” or not. The ICO could strengthen the degree of statistical detail by developing definitions and rules related to greater specificity of coffee type based on the consumer market and processing and production methods implemented. In its Document WP Statistics 120/08 (Proposals for Revisions to the Rules for the Application of a System of Certificates of Origin), the Secretariat lists two specific proposals for forwarding this objective. On the one hand, the proposed version of Rule 2.8 calls for, “[the gathering of] other relevant information related to the coffee being exported, i.e. information related to the quality parameters in accordance with Resolution 420 and/or other information, such as certification schemes/programs and Harmonized System (HS) codes.” On the other hand, Annex IV to the rules provides guidance on common certification schemes and wordings for (optional) marking in Certificates of Origin.
- 7 Note that Document WP Council 173/08 (Draft Strategic Action Plan) provides for the integration of such activities within the work stream of the ICO. Specifically, paragraph II.3.8 calls for “develop[ing] statistical coverage of sustainable coffee programs, including certification and verification schemes.”
- 8 The current structure, which revolves around a “virtual screening committee” for projects, may be an adequate vehicle if linked directly up with a more proactive project development and fundraising process under the auspices of the Consultative Forum.
- 9 In “Leveraging the Market,” the Sustainable Coffee Partnership signalled the opportunity for establishing a “Financial Services Information Access Point,” as well as a “Risk Management Facility.” Both opportunities could serve to fulfill the objectives of the Consultative Forum on Coffee Sector Finance. With the appropriate structure, the Consultative Forum could manage the establishment of financial information services for ICO Members and the coffee producing community at large.
- 10 In “Leveraging the Market,” the Sustainable Coffee Partnership signalled the opportunity for establishing a “Partnership Fund for Sustainability.” The Consultative Forum on Coffee Sector Finance reaffirms the importance of Finance and provides a springboard for considering fund options in more detail through a structured process established under the Forum.
- 11 Whereas the ICO Project Committee focuses on projects and priorities within the pipeline of the ICO, the Committee on Coffee Sector Finance looks for synergies and priorities across the global arena of coffee projects—including both ICO and non-ICO projects.

