



The Nestlé  
coffee report

# Faces of coffee





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The future of the coffee world

# The changing world of coffee





Take any morning in London, Brussels or Paris. Millions of people start their day with a cup of coffee. For some, a day without coffee is worse than a day filled with rain. From Western Europe to the Middle East, from Asia to Latin America, in busy urban cultures and in remote rural villages, this ritual is repeated throughout the day, providing enjoyment and sustenance. Today's international coffee culture transcends the globe, transforming an ancient commodity into a phenomenon of the consumer age. Coffee brands, including the number one brand, *Nescafé*, are becoming global icons.

Meanwhile in Africa, Latin America and Asia, many coffee farmers wake up to a starker reality. Green coffee prices have plummeted so steadily over the past years that what used to represent hope for a better life has turned, for some, into a living nightmare. The slump in coffee prices has plunged many farmers into poverty. For some, the blow is partially shielded by income from other crops. Some may work on large, modern, efficient farms, or may be making a decent living selling high quality speciality coffee to the coffee boutiques and companies like Nestlé Nespresso. But today, they are the minority.

Why are so many coffee farmers in such a situation which is not of their making?

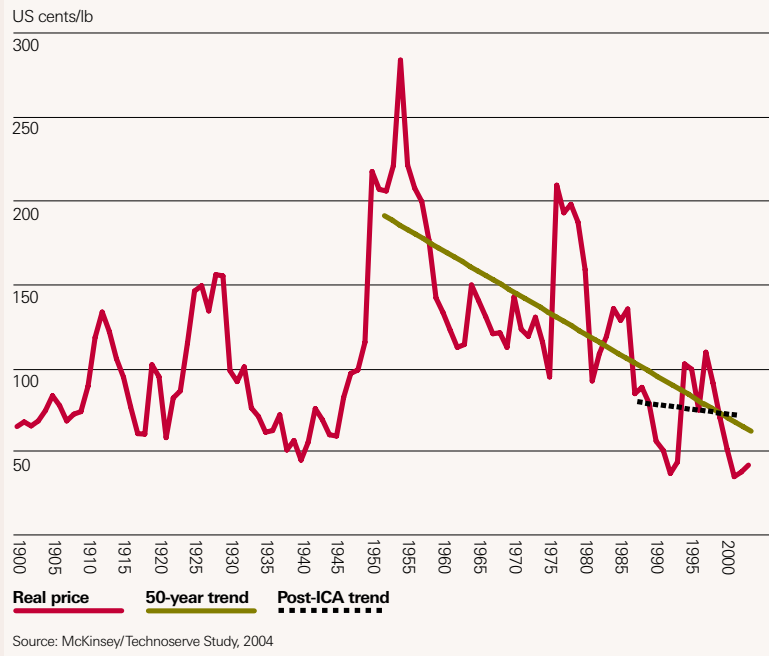
**Price volatility**

Until the late 1980s, the green coffee market was protected from wide price swings by the International Coffee Agreement (ICA), through which consuming and producing countries agreed on export quotas and price bands for coffee. It had been established in the 1970s after wide swings in prices. However, the economic clauses of the ICA collapsed in 1989 due to systemic shortcomings, mainly as a result of the withdrawal of support by the United States. The consequence was a more volatile market, in which prices, after initially collapsing, reached levels well above production costs by the mid-1990s.

This was worsened by severe frost and drought damage to the Brazilian coffee crop in 1994, and the resulting shortage of supply pushed Arabica prices to over USD 3 per pound by 1997.

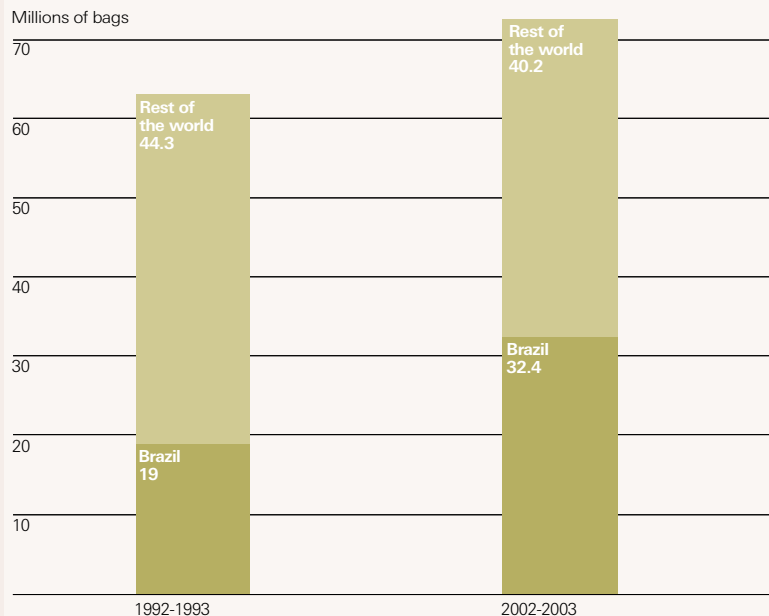
But by the end of the decade, export earnings had begun to slide – from USD 12.9 billion in 1997 to just

**Coffee price 1900–2003**



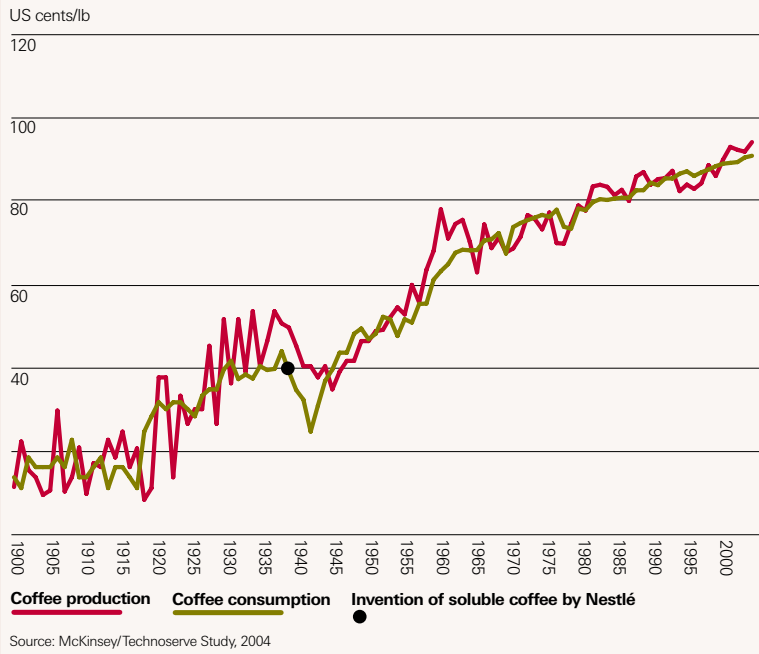
Source: McKinsey/Technoserve Study, 2004

**Worldwide Arabica production**

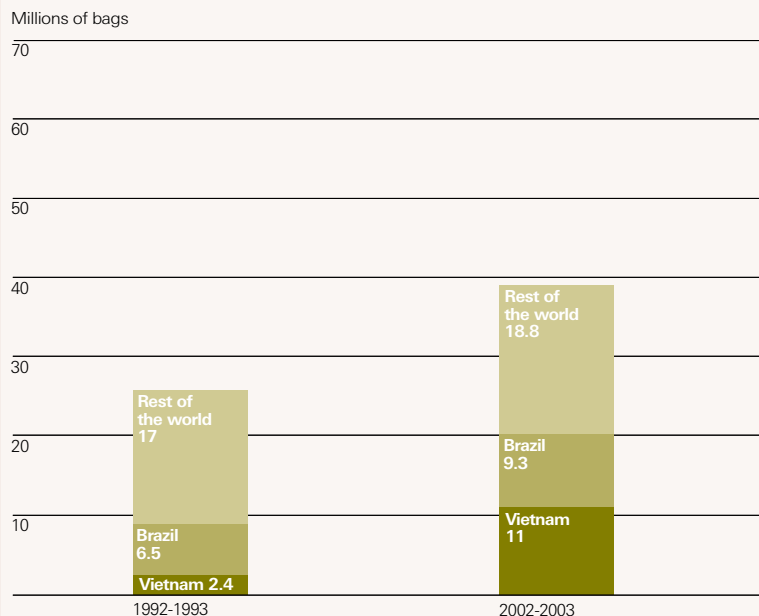


Source: Nestlé Purchasing Department

## Coffee production vs consumption



## Worldwide Robusta production



USD 5 billion in 2002. Large parts of the Brazilian coffee sector had already begun to innovate with modern methods of agriculture, producing at costs significantly below those of many small coffee farmers, and by the late 1990s the supply of coffee had greatly increased.

On the other side of the world, another major change was taking place. In the 1990s, Vietnam transformed itself from a new entrant in the coffee market into the world's second biggest coffee producer, all in the space of less than ten years. While oversupply had taken a heavy toll on its rivals, the World Bank's earlier forecasts that Vietnam could become a mass exporter of coffee had proved to be correct. Even its small cooperatives appear to be able to produce at lower cost than their counterparts in much of Central America and Africa.

This is by no means the first time the world has seen wide swings in coffee prices. The policy makers who encourage coffee farming in Vietnam are as eager for foreign exchange as the Guatemalan government of the 1820s, which offered cash prizes to reward bumper harvests. The catalyst for industrialisation in nineteenth century Brazil was the collapse of its dynastic coffee trading families, hurt by tumbling prices.

However, the ability of large Brazilian farms, and other new entrants such as Vietnam, to grow coffee at lower prices may have altered the economic fundamentals of coffee growing. This raises doubts as to whether many small coffee farmers will be able to compete in the coffee marketplace.

### The role of large coffee companies

The contrast between the flourishing profits of coffee companies and the rising poverty among farmers has made headlines around the world. These are contrasting aspects of the same global industry – disparate players linked in most cases only by their dependence on the international coffee market.

Yet the precise relationship between the booming retailers of the developed world to the catastrophe in growing countries is difficult to trace. Blaming big companies for the predicament of poor farmers is a recurring feature of campaigns highlighting the coffee crisis – but it is a difficult argument to sustain. To a significant extent, the forces which weigh on the coffee market are the same now as ten or even twenty years ago. Prices reflect the balance of supply

and demand, adjusted for variations in quality and climate, the estimated size of stockpiles and the impact of regulation. Companies have realised that they are sitting with a commodities crisis and there is only so much that they can do.

As a positive step, producer countries are being encouraged to add value by processing green beans at home. Better still, some soluble coffee makers are manufacturing at source – highlighting the divergent interests of countries with the potential to export and those dependent solely on primary crops. For example, Nestlé currently produces about 55% of its soluble coffee in developing countries despite escalating tariffs in industrialised countries, thus contributing to the industrialisation of local economies. This is the most valuable economic contribution a multinational can make in developing countries, whatever the coffee price.

But the most direct positive impact of coffee companies is to promote consumption. In particular, a combination of new technology and innovative marketing has fostered a vast diversity of soluble coffees. Over the past decade, industry-wide sales of soluble coffee have risen 35% – twice the rate for other coffee types. *Nescafé* alone has increased sales by 40%, with over 128 varieties.

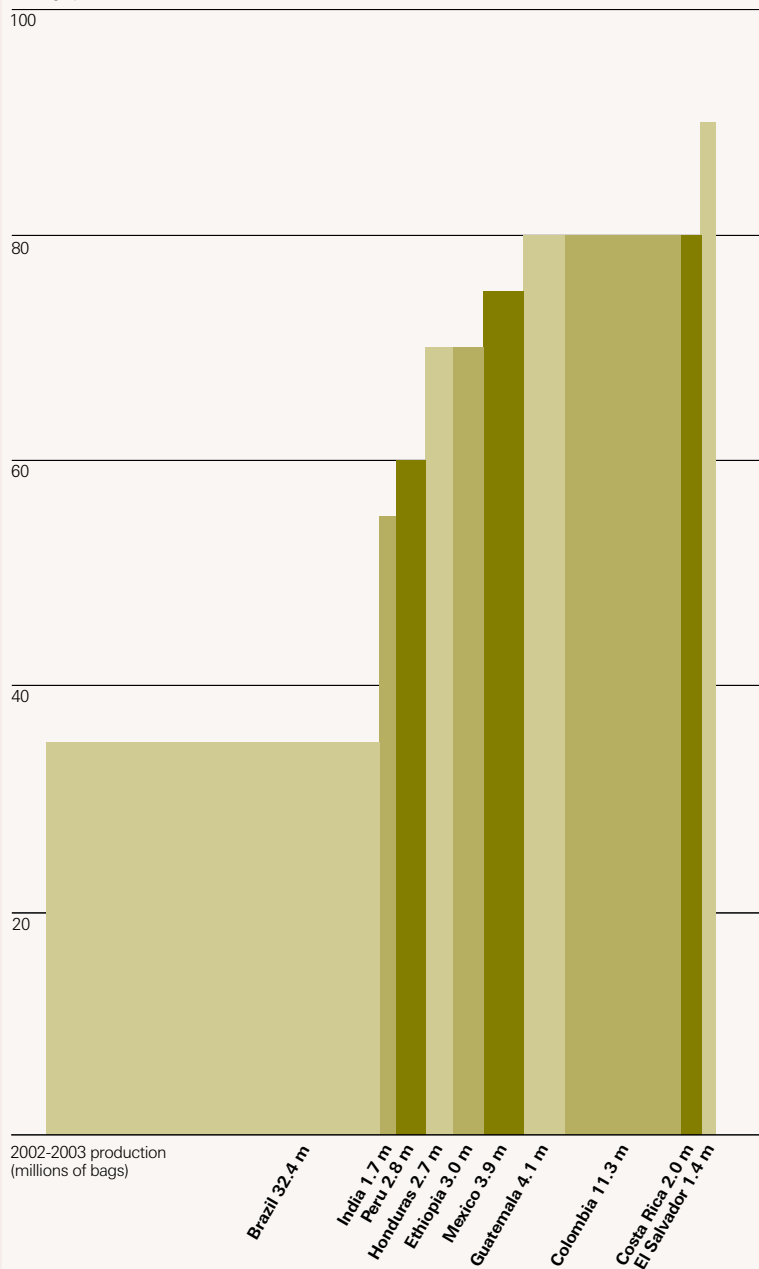
**Eliminating trade barriers for other commodities**

The increase in consumption of coffee provides some good news for the farmers, but it is not enough to solve the crisis. Some 111 million bags of green coffee were produced in 2002/2003 but only 109 million bags were consumed. Existing stockpiles already correspond to half a year’s production and something clearly needs to be done at production level.

Coffee has a good claim to be the world’s second most important agricultural commodity. Up to 25 million people depend on it, the vast majority being smallholders in developing countries. Export earnings play a vital part in servicing foreign debt: on the International Monetary Fund’s list of Highly Indebted Poor Countries, 24 are significant coffee producers. Because these exports go to middle or high-income countries, coffee facilitates the transfer of wealth.

**Production costs for Arabica coffee**

Average production cost (US cents/lb) 1996-2001



Source: Nestlé Purchasing Department and McKinsey/Technoserve Study, 2004



## Production costs for Robusta coffee

Average production cost (US cents/lb) 1996-2001

100

80

60

40

20

2002-2003 production  
(millions of bags)

Brazil 9.3 m  
Vietnam 11.0 m  
Indonesia 5.8 m  
Thailand 0.9 m  
India 2.9 m  
Cameroon 1.0 m  
Uganda 2.7 m  
Côte d'Ivoire 2.5 m

Source: Nestlé Purchasing Department and McKinsey/Technoserve Study, 2004

Much of this geo-political significance has been acquired by default. If tariff barriers and subsidies, which distort trade in other goods such as sugar or manufactured items, were removed, coffee would matter less. Instead, protectionist trade policies in the United States and Europe have been entrenched.

Given these subsidies, it is not economically viable for farmers to produce sugar or soya bean: the prices on the world markets are way below production costs, even for developing countries. Liberalisation in that sector is urgently needed if farmers are to be able to make decent incomes.

### Proposed alternative mechanisms

Some non-governmental organisations (NGO) advocate the destruction of existing coffee stocks. Several Latin American countries have already destroyed low-grade coffees, hoping to create a short-term stimulus in a sinking market. Such an artificial approach lacks a long-term view. Destroying stocks will certainly drive prices up. But it will do so without improving the market balance. Farmers will keep producing too much coffee – and will even produce more as the prices are higher – and more stock destructions will be needed over following years. Such a mechanism would give the wrong message to the farmers. It is necessary to tackle the cause of the problem, not tinker with its symptoms.

Shortening the supply chain is a way of helping coffee farmers. Fair trade coffee, for example, sets social criteria and secures a guaranteed minimum price for the farmers' cooperatives while encouraging solidarity between small farmers and coffee drinkers in the developed world. However, over the longer term, such guaranteed minimum prices could have the counterproductive effect of drawing farmers back into the market. This would lead to increased production, pushing commercial prices lower.

In fact, the most efficient way of shortening the supply chain is for roasters to buy directly from the farmers, who can then retain more of the price those coffee companies pay for green coffee. This solution has the advantage of not distorting the market mechanisms, and is therefore applicable to the mainstream. In the industry, the largest direct buyer

of green coffee is Nestlé. With 110 000 tonnes bought via this channel, it covers 14% of Nestlé's needs. But it is unrealistic to believe that this model could be applied to a significantly larger proportion of a roaster's purchases, as it is only possible in coffee growing countries where there are already large processing plants.

### **Quality improvement is an efficient approach**

One reform strongly advocated by the International Coffee Organisation and by a number of roasters including Nestlé is to drive up prices by improving quality. The ICO has passed a resolution (407) to this effect. It sets quality levels below which green coffee should not be exported. Carefully and well prepared coffee that is presented for purchasing with the defective beans removed, and free of foreign material, will result in a higher price for the farmer due to its superior quality. It is a good first step, but further work on quality should be done.

Farmers sometimes need support to improve quality. This is an area in which governments, international organisations, companies and NGOs can collaborate. Initiatives are already in place, in particular among industry members and development agencies. But more work needs to be done on that level, in particular by governments in producing countries which should uniformly adopt the same methodology and process when determining these quality standards. This is also an area in which companies can play a positive role through technical assistance to the farmers.

### **The future**

Today, producers are grappling with the rigours of a new coffee growing revolution. More aggressive management has transformed traditional estates into large scale, low cost agribusinesses. These have a role to play in alleviating poverty and creating new kinds of jobs – many of them in offices and distribution, rather than fields. The trend cannot be reversed.

New industry means new opportunities for some, but not for all. The modernising coffee business will no longer support 25 million small farmers. In the main, they have relied on coffee for so long only because many are barred from finding livelihoods elsewhere by tariff barriers and agricultural subsidies in the

developed world. International organisations, companies and NGOs must work together to help governments and politicians understand that the brunt of famine and poverty will fall most heavily on those who depend most on growing low-grade crops unless, and until, a more liberalised system of world trade allows them a viable alternative.





From cherry  
to cup



# From cherry to cup: the process



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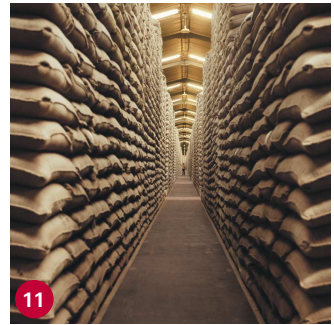
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(1) In order to get a good quality coffee, it is important to grow the appropriate varieties. Researchers around the globe are working on improving the characteristics of coffee varieties. (2) Seedlings of new improved varieties are then mass-produced to be

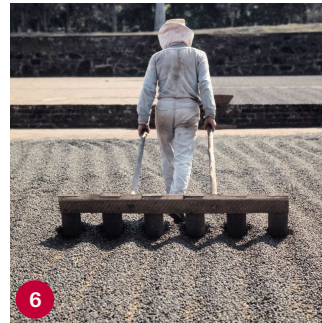
bought by or given to farmers. (3) It takes on average three to four years for a coffee tree to reach maturity and bear fruit. (4) The cherries develop slowly, turning light green to bright red as they ripen over a period of about nine months. The coffee is usually picked

by hand. (5) Inside each cherry are two coffee beans. Once harvested, the beans must be separated from the skin, pulp and parchment that surround them. This is done by one of two alternative methods. (6) In dry processing, the cherries are first dried by

the sun on the ground or on tables. (7) In wet processing, the skin and the pulp of the cherries are removed by a succession of mechanical and watery treatments, producing parchment coffee. (8) After the coffee is dried, the parchment which remains



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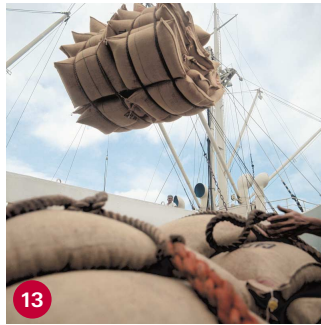
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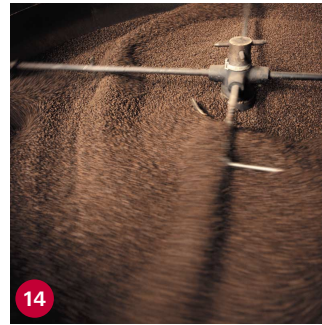
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on the bean is removed by a hulling machine. Finally, the hulled coffee beans are sorted by hand or machine to remove stones or other foreign matter, and defective beans. (9) This results in what is called green coffee. (10) A strict control of the green coffee

helps to monitor the quality of the exported beans. (11) The coffee is then stored and (12) traded in futures markets. (13) Once purchased, it is shipped to the factory. (14) There it is roasted. (15) That is the end of the process for roast and ground

coffees. (16) In the case of soluble coffees, a longer manufacturing process involves an extraction and drying process to obtain (17) soluble coffee powder. (18) After a final quality control, (19) the coffee is filled in jars and (20) distributed

to (21) coffee shops and retailers. (22) Then only, it can be consumed by millions of people around the world.

# What can be done to help coffee farmers improve their incomes?

Coffee is enjoyed all around the world. The “daily cup” is a ritual for many, the first thing we do every morning. In fact, it would be hard to find a home or an office that doesn’t own a jar of coffee. Drinking coffee is a truly global pastime.

But how much do you know about this most important drink? Have you ever wondered how the coffee in your cup came to be there?

This is the story of the chain of events that turns coffee cherries into a beverage that is enjoyed by millions of people throughout the world.

It is also the story of the people – and the communities – behind that process, and how Nestlé works with them to improve their results. Around the world an estimated 25 million farmers make all or part of their income from growing coffee. In addition to them, millions of other people depend on the global coffee industry for their livelihoods. These are the individuals who link the coffee chain together.

## Nestlé’s coffees are sourced in most growing-countries

Coffee – the world’s second most important agricultural commodity – has its origins in Africa.

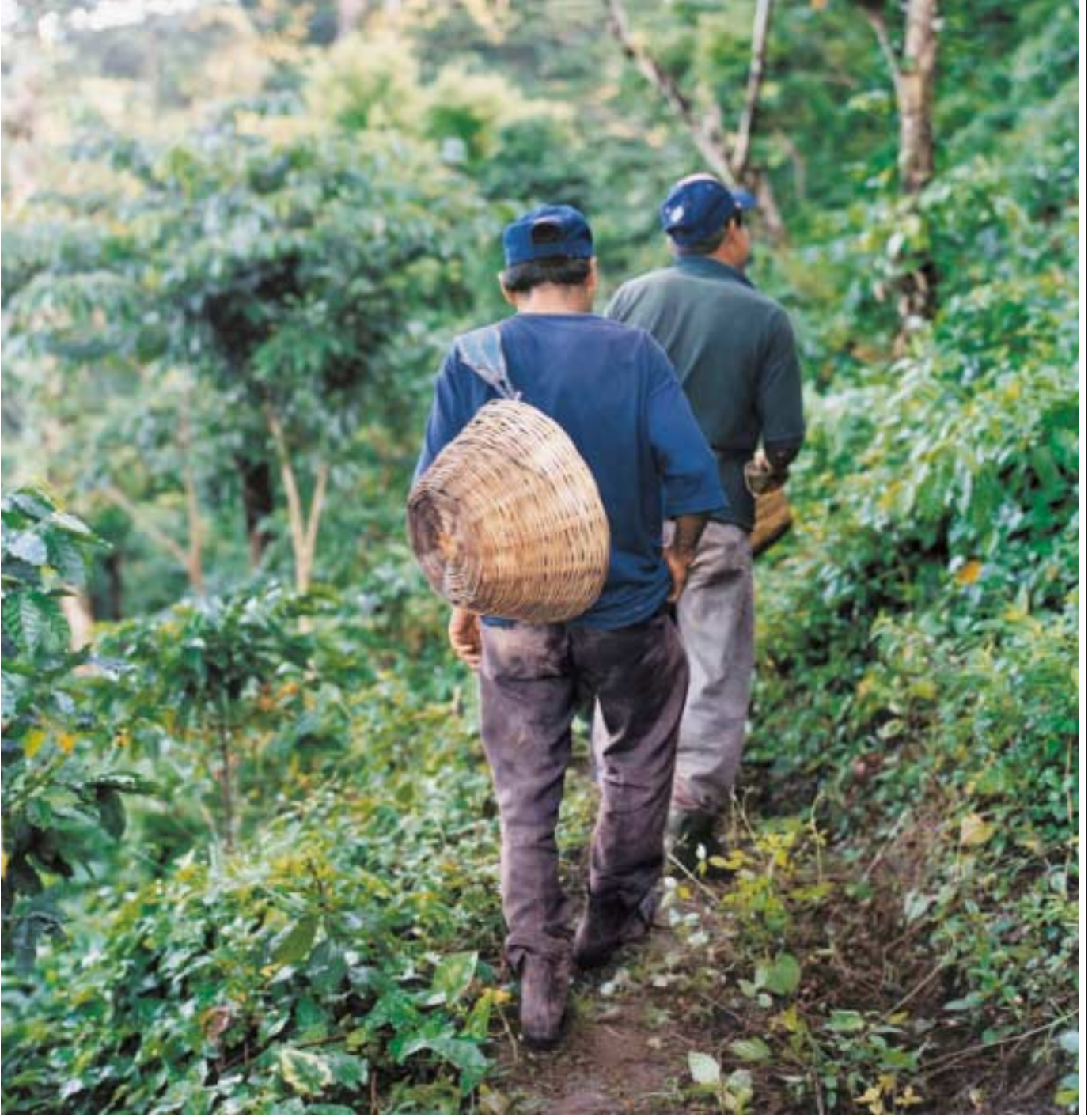
It grows best in the “coffee belt”, a region of the world that straddles the equator between the tropics of Cancer and Capricorn.

For many of the countries in the belt, coffee is a valuable export. For some of the communities within these countries, producing coffee is the primary economic activity.

The vast majority of coffee farmers – some 80% – are smallholders owning a few hectares of land or less. For many of these farmers, growing coffee represents their only source of income.

Nestlé is a regular buyer of coffee produced in most of the coffee-growing countries.





# Improving the quality of coffee trees through research

A high yield of quality coffee cherries depends on having disease resistant, healthy coffee plants.

Scientific research into the improvement of these plants is helping farmers to secure a greater yield and a higher quality crop, which means they can earn more from growing coffee.

Research has developed multiplication techniques – such as somatic embryogenesis – that enable specific high quality coffee varieties to be reproduced in bulk.



**The improvement of coffee plants helps farmers to produce better quality coffee**

## Nestlé supports research on coffee

The Nestlé Research Centre in Tours, France, has pioneered research to improve coffee cultivation around the world.

Working alongside partner institutes in coffee producing countries, it has developed techniques to cultivate coffee plants that are adapted to particular environments and soils.

It also conducts studies to control the diseases and pests that destroy farmers' crops and livelihoods.

Working in collaboration with several coffee producing countries, Nestlé has established a collection of 250 proven high quality coffee varieties from around the world.

These are offered free of charge to the countries that have participated in the project, enabling them to conduct plant improvement programmes using the best varieties for their climate and conditions.

In Mexico, for example, INIFAP, an agency of the Mexican government specialised in agricultural development and partly funded by Nestlé, has set up a multiplication programme for the large scale production of high quality and productive Robusta coffee plants.

These are supplied free of charge to Mexican coffee farmers, helping them to become more competitive and to produce coffees that correspond to Nestlé's factory needs. This guarantees a buyer for their harvest.

## Dr. Alfredo Zamarripa INIFAP Institute Chiapas, Mexico

Alfredo Zamarripa is responsible for industrial crops at the INIFAP Institute in Chiapas, Mexico.

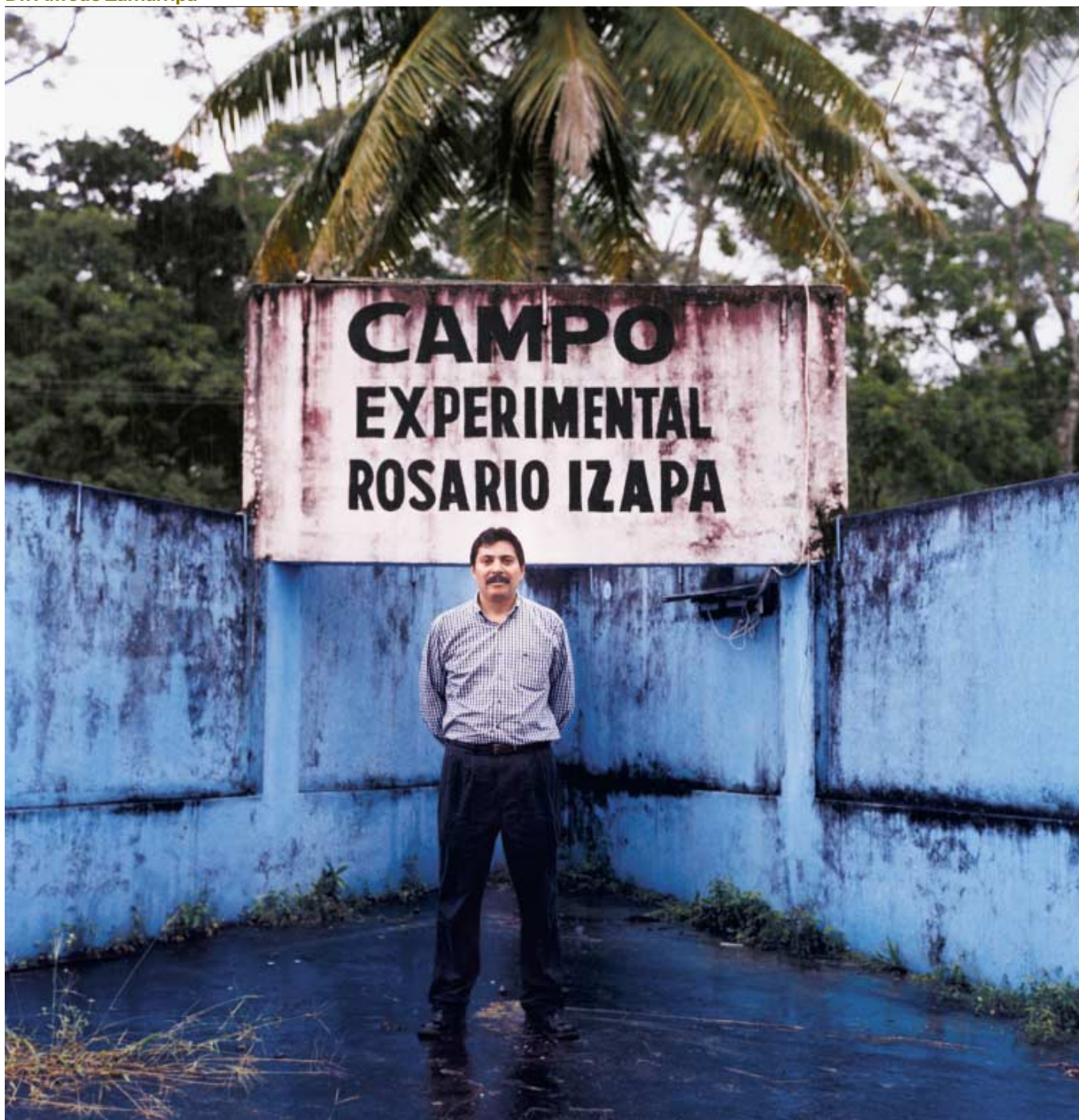
"I carried out practical research for my PhD in France with the Nestlé Research Centre. It was my supervisor who suggested that we might start a project based on my research here in Mexico. We had a meeting and very quickly we agreed on the different areas of research for this project.

"The result of those years of collaboration is that we obtained eight selected clones that have a very high industrial quality, are resistant to disease, and have the ability to produce a yield four times in excess of normal production.

"It makes me very happy to be involved in this line of work. I know that this project is going to be an important contribution to helping the coffee farmers of Mexico overcome the current crisis. The techniques we have developed here will enable farmers to produce a higher quality crop and earn more.

"I am a coffee farmer myself. I think this is important. If you are just a scientist, it's possible to lose track of the full picture of the coffee cycle. But when you are a farmer yourself, and you know the problems they experience, it's much, much easier to understand just what the farmer needs and how technology can support him."

**“When you are a farmer  
yourself, it is much, much easier  
to understand what the farmer  
needs and how technology  
can support him.”**  
**Dr. Alfredo Zamarripa**



# Developing disease resistant and productive coffee trees

**Bayetta Bellachew**

**Coffee and Tea Research**

**Programme Co-ordinator**

**Jimma Research Centre**

**Ethiopia**

Bayetta Bellachew has been working at the Jimma Research Centre for 23 years. He obtained his PhD in Plant Breeding at Imperial College at Wye, University of London. He developed the promising Aba Buna coffee variety at the Jimma Research Centre.

“Here, at the research centre, we have launched a programme aimed at gathering and describing the various Ethiopian coffee types and develop improved varieties. Arabica coffee comes from Ethiopia and grows wild in our forests. What we aim at doing is to identify the varieties that are best for cultivation.

“Ethiopian growers cannot afford pesticides and fungicides. It is therefore vital for them that we provide them with coffee varieties that are pest and disease resistant. Another crucial aspect for our farmers is productivity. As they are all smallholders, they need to have high yielding plants that will enable them to have a sufficient income.

“But with the low coffee prices, we have realised how important it is that we put an emphasis on the quality of the coffee that is produced. A high quality coffee will have a better market value and will enable farmers to improve their revenue. So we are now also focussing our research on this aspect.”

Coffee needs to be adapted to its environment, and this needs to be taken into account in the research carried out by the research centre.

“A variety that performs well in Harar might be less productive in Sidamo or here in Jimma. That is why we have opened sub-centres elsewhere in the country in order to test the coffee varieties in other environments. That way, the adaptability, productivity and quality at each location can be monitored.”

The Jimma Research Centre has achieved a number of scientific successes over time. One of them is the development, over the past twenty years, of the Aba Buna coffee variety, a hybrid obtained from two Ethiopian varieties.

“Aba Buna is a very productive coffee that also has a good resistance to coffee diseases and today the multiplication process will begin as soon as the appropriate technology is put in place, in order to supply it to the Ethiopian growers.

“Now that we have started a collaboration with Nestlé’s research centre in Tours, we believe that we will be able to perform better in our research. Their experience in that field, as well as their financial contribution will be a great support for us. By improving the Ethiopian farmers’ planting material and processing practices, we will help them to perform better in the world market.”



**The Jimma Research Centre focuses on developing high quality coffee plants**

**“By improving the Ethiopian farmers’ planting material and processing practices, we will help them to perform better in the world market.”**

**Bayetta Bellachew**



# Providing farmers with better coffee plants

Two main types of coffee are grown commercially: Robusta, which originates from Central and Western Africa, is now mainly grown in Vietnam, Brazil, Indonesia, Uganda, Côte d'Ivoire and India.

Arabica, which derives from Ethiopia, is today principally grown in Brazil, Colombia, Mexico, Central America, Peru and East Africa.

World supply is currently about 60% Arabica and 40% Robusta.

The different varieties of coffee are each suited to certain climatic and soil conditions. Even within a particular country or region, certain coffee plants will produce greater quality and yields than others.

## Nestlé provides best quality coffee plants

Nestlé provides high quality coffee plants free of charge or at cost to coffee growers through projects in a number of countries.

This allows farmers to grow varieties adapted to their environments and soils. It helps them improve the quality and yield of their coffee.



**Somjade Simchaluen is one of the Nestlé agronomists who provide seedlings to coffee farmers in Thailand**

## Micaela Sanchez Flores

Farmer

La Victoria, Mexico

Micaela Sanchez Flores is a farmer at La Victoria communal coffee tree nursery in the Tezonapa region of Mexico, where Nestlé has initiated a number of projects to support coffee farmers.

At the nursery, Micaela Sanchez Flores and other local coffee farmers are tending Robusta coffee saplings to prepare them for transfer to their fields. The saplings were grown from seeds from the INIFAP Institute in Chiapas, Mexico, and were specially selected for planting in the Tezonapa region.

Nestlé funded the construction of La Victoria nursery. In return for their work in tending the coffee saplings, the farmers receive the mature plants free of charge. They are also paid a small salary by the municipal authority.

"I have already replaced half a hectare of my coffee plantation with plants from this nursery. I understand that these plants are expected to produce better quality coffee cherries. Obviously, that will be a help to us during these difficult times.

"I am optimistic about this project. It's a positive thing for us right now."

**"We hope to see an increase  
in the quality of the cherries  
and therefore a higher price."  
Micaela Sanchez Flores**



# Offering free assistance to coffee farmers

For many coffee farmers, the agricultural techniques they use have been passed on from generation to generation. These farmers may not have had an opportunity to benefit from instruction in more advanced farming skills.

By learning new harvesting and processing techniques, farmers can improve the quality of their coffee. One example is the use of water flotation to separate good and bad quality cherries. This leaves farmers with a crop of a consistently high quality, which can then be sold for a higher price.

Farmers can also benefit from instruction in the use of compost to replace fertiliser. This reduces their costs whilst protecting their land and promoting sustainable agriculture.

## Nestlé works closely with coffee farmers to help them improve their crops

Nestlé runs three Experimental and Demonstration Farms, in China, the Philippines and Thailand. On each of these farms, agronomists from Nestlé's Agricultural Services Department provide technical assistance and advice to farmers. Their advice helps the farmers to farm more productively, and it helps Nestlé to secure a future supply of high quality coffee for its factories around the world.

Nestlé also supports a Coffee Training Centre in Ethiopia.

Advice provided by Nestlé agronomists is free and there is no obligation on the farmer to then sell his coffee to Nestlé.



**Using compost is an efficient way to reduce costs**



**“Coffee farmers can derive more income from coffee and have a more comfortable life.”**

**Mheuyhi Abegoo**



**Mheuyhi Abegoo**  
**Nestlé Experimental and**  
**Demonstration Farm**  
**Doi Tung, Thailand**

Mheuyhi Abegoo has been working in Nestlé’s Doi Tung Experimental and Demonstration Farm (E&D Farm) since its creation fourteen years ago. She looks after the Farm’s coffee plantation and garden. For her, working at the Farm is a good way of supplementing the income she gets from her coffee and lychee farm.

“By working here, I also gain knowledge of how to grow my coffee more productively.”

The Doi Tung E&D Farm assists farmers to improve their techniques for growing Arabica coffee. Up to 600 coffee growers receive practical training and tuition at the Farm each year.

“I really like the concept of this Farm, it gives people from the hill tribes of northern Thailand an opportunity to improve their coffee cultivation. This way, they can derive more income from coffee and have a more comfortable life.”

# Informing farmers on better coffee cultivation

**Orn-lamai Siriporn**  
**Freelance Journalist**  
**Chumphon, Thailand**

Orn-lamai Siriporn is 35 years old. She is a freelance radio presenter and journalist.

Once a week on the Chumphon Meteorological Radio Station she presents a radio programme providing technical assistance to the area's coffee farmers.

"It's a real challenge for me to present this programme, but I accepted the job because I know that it helps the farmers in my region. If they apply the advice given in my programme, they can improve the quality of their coffee and earn more."

Nestlé founded and funds this radio programme. The company's agronomists help Orn-lamai Siriporn to prepare the broadcasts and are regularly interviewed on the show.

"Every week we broadcast a discussion interspersed with music. The combination of music and discussion makes the programme entertaining and informative. Our one-hour long programme is broadcast weekly throughout the year."

For the last six years, the programme has been broadcast on two radio channels, reaching some 5000 farmers. However, in June 2003, a third radio station agreed to broadcast the show and it now reaches all of Nestlé's 16 000 suppliers and other farmers in the region.

"The great thing about this programme is the response it generates from farmers. Every week farmers call the radio stations to get advice, or simply to inquire about something we discussed on the show. Some farmers just call to thank us."



**Once a week a programme on coffee growing is broadcast on radios in southern Thailand**



**Somjade Simchaluen is a Nestlé agronomist who provides technical advice on the Chumphon Meteorological Radio Station**

“Every week, farmers call the radio station to get more information on coffee cultivation.”  
Orn-lamai Siriporn



# Improving post-harvest processes

Coffee needs to go through a number of post-harvest processes to convert it from fresh coffee cherries to green coffee beans.

Each coffee cherry contains two beans that must be separated from the skin, pulp and parchment that surround them.

In dry processing, the cherries are first dried by the sun. This can also be done in special machines. Once dry, the cherries are fed into hulling machines to remove the husk and leave just the bean.

In wet processing, the skin and the pulp of the cherries are removed by abrasive disks as the cherries move past in running water. The remaining sticky pulp on the beans, still surrounded by a fine layer of parchment, is removed either by fermentation or by mechanical means. When the coffee is dried, the parchment is removed by a hulling machine. This results in what is called green coffee.

Dry processing is easier and more economical than wet processing. However, wet processing produces better quality coffee.

Finally, the hulled coffee beans are sorted by hand or machine to remove stones or other foreign matter, and defective beans. The presence of these reduces the quality of coffee and, consequently, the price for which it can be sold.

Depending on the resources available to them, coffee farmers will be able to carry out some of these processes themselves. The more they do, the higher the price they can command for their crop.

## Nestlé encourages farmers to invest in better processing

Nestlé supports projects that give financial support to farming communities and enables them to acquire the equipment that is needed to process coffee cherries.

This means that the farmers retain more of the value of the coffee beans they grow.

## Women outside buying centre Gagnoa, Côte d'Ivoire

"During the buying season, which usually begins in December and finishes in May, I clean coffee outside the Nestlé Buying Centre in Gagnoa. I work in a team with other women. We are friends.

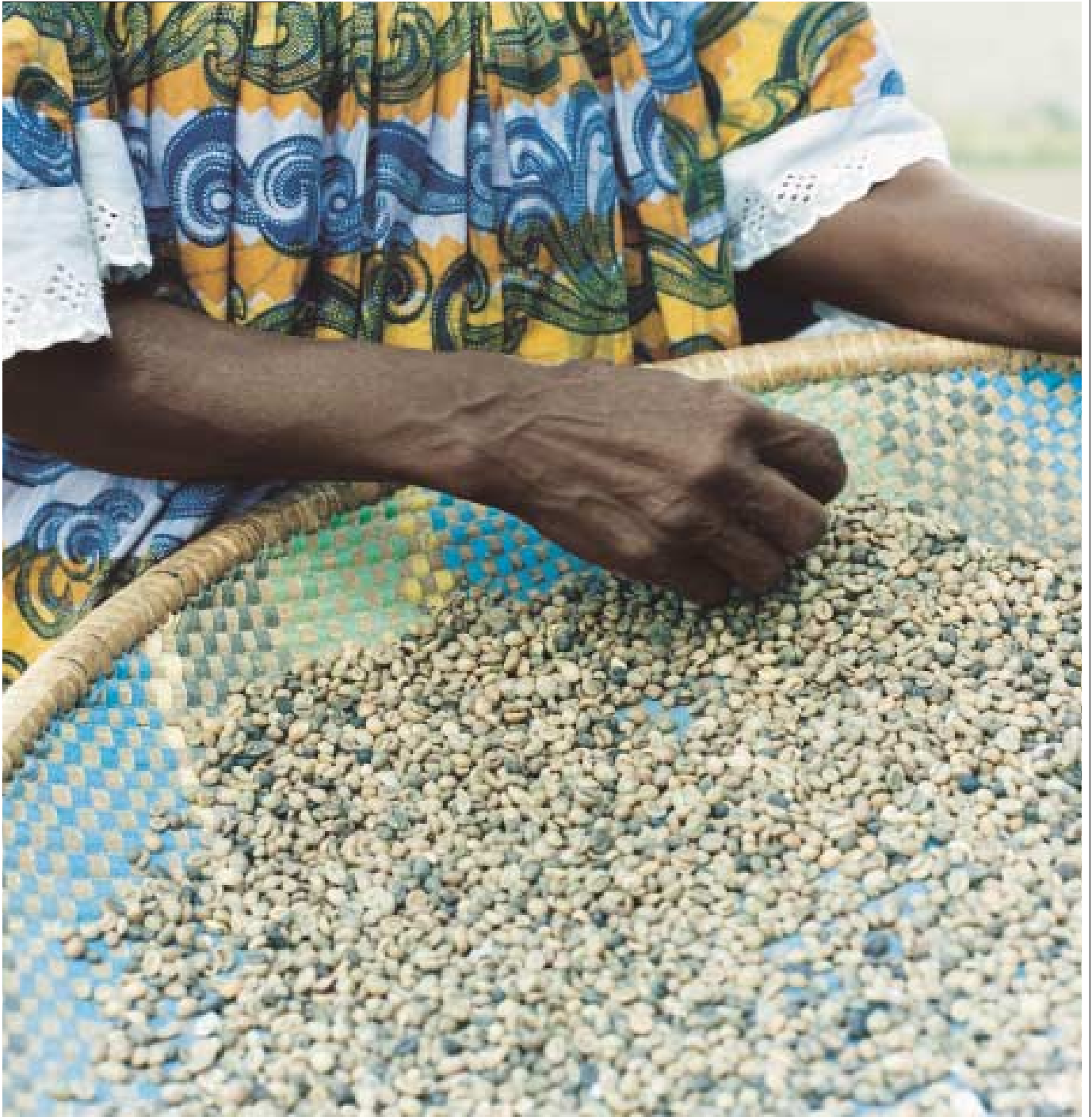
"Sometimes there are up to 250 women cleaning coffee outside the buying centre. It is very animated and very busy.

"I can clean about ten 90 kg bags of coffee in a day, depending on how dirty the coffee is. I sift the coffee with a wicker pan to separate any stones, dust and dirt from the green coffee beans.

"It is hard work, but I am in good company. We earn between CFA 200-300 for each bag of coffee we clean." In Côte d'Ivoire, farm workers earn CFA 90 000-120 000 per year plus food and housing.



**"I sift the coffee with a wicker pan to separate any stones, dust and dirt from the coffee beans."**



# Supporting co-operatives

## Nestlé Nespresso pays premium prices for the quality coffee it buys

The quality premiums paid by Nestlé Nespresso, the fast growing portioned coffee business, reward farmers for the high quality products they produce to meet the expectations of *Nespresso* consumers.

At the same time, Nestlé Nespresso is committed to the progressive implementation of sustainable quality coffee practices. This will not only ensure that the green coffee Nestlé Nespresso buys meets its premium quality standards, but also that its production conforms to the long-term economic, environmental and social principles required for sustainable development in the coffee producing countries.

Through its AAA coffee programme initiated in Costa Rica, Nestlé Nespresso seeks to establish and promote high quality to assure that its AAA system is properly implemented. The AAA programme aims at building capacity for professional assessments of sustainable high quality at the farm or mill level and to improve the traceability of its coffee origins.



**AAA coffee programmes will soon begin in Colombia and Ethiopia**

## Ildiberto Escobar Valdivia

### Association of Tezonapa

#### Coffee Growers

#### Tezonapa, Mexico

Ildiberto Escobar Valdivia is President of the Tezonapa Association of Coffee Farmers. There are 8000 coffee farmers in this region of Mexico.

“Local farmers united to form the Tezonapa Association of Coffee Farmers and established their own mill in Limonestitla in 1997.

“Most of our coffee is sold directly to Nestlé, and what remains is used for local consumption.

“Proprietorship of a mill enables us to carry out nearly all of the processing of green coffee ourselves.

“We feel more secure nowadays, because we are an association and because of our relationship with Nestlé. Our farmers are guaranteed payment on time by Nestlé. They also benefit from advice from Jesús and Martín, Nestlé agronomists who visit the mill regularly.

“Our culture here is coffee. It’s something we have inherited from our parents. These are hard times, it is true, and we know that success will only come through hard work and organisation. That is why we are working collaboratively.

“Our farmers greatly welcome Nestlé’s involvement.”

**"The farmers established their own mill and this has enabled them to sell their coffee at a higher price."  
Ildiberto Escobar Valdivia**



# Ensuring quality post-harvest treatments

Post-harvest treatments form an important link between coffee farmers and roasters, turning coffee cherries into coffee beans. Their quality is critical in determining the price that the green coffee can be sold for.

In a minority of cases, farmers or their associations will own the milling machinery. In most cases, however, farmers will rely on small contractors to hull their dried cherries or on large mills in their local town or village.

The mills charge a fee to process the coffee. They then pack it and arrange delivery to the roaster.

## Nestlé considers that the mill plays a key role for quality

For washed coffee, the mill plays a key role in the quality of the coffee. This is why, in some countries, Nestlé has close relationships with the mills that supply its *Nescafé* factories.

In Mexico, for example, Nestlé agronomists will regularly visit the mills to ensure that high standards of food safety are applied. They also inspect the financial records of the mills to check that farmers have been paid according to the price that Nestlé paid when it purchased from the mill.

## Jorge Varela

Exportadora de Granos y

Oleaginosas del Sureste

Mexico

Jorge Varela is the manager of Exportadora de Granos y Oleaginosas del Sureste, a coffee mill in Tapachula, Mexico. For the past twelve years, this mill has supplied the Toluca *Nescafé* factory outside Mexico City.

“When buying coffee from the farmers, we are in daily contact with Nestlé by phone. Based on the real time prices of coffee, we place contracts with Nestlé. The price the farmer receives is the price on the international market that day.

“The reality is that the farmers already know which price to expect when they bring their coffee to the mill. They have access to this information through their associations, newspapers, radio, and the internet of course.

“What we are doing is giving an added value to the coffee. In doing so, we are helping the farmers to sell their coffee.

“We regularly receive advance contracts from Nestlé. The prices may go down between the contract being made and Nestlé taking possession of the coffee, but Nestlé always gives us the price that was agreed at the time. Of course, it couldn't be any other way as we will have already paid the farmers at that price.

“I've had this job for 12 years now. I like the fact that I deal directly with the farmers. We try hard to give them an excellent service and to help them to sell their product.”



**"The farmers already know  
what price to expect when they  
bring their coffee to the mill."**

**Jorge Varela**



# Buying coffee directly from farmers

In many countries, middlemen feature in the coffee supply chain. These middlemen enable coffee farmers to sell their crop. However, when the supply chain is inefficient and involves too many intermediaries, it is to the detriment of the farmers, who then receive a lower price for their coffee.

Direct purchasing of green coffee – where the roaster buys directly from the farmers or their organisations – is a way to improve the farmers’ revenue when the coffee chain is inefficient. It helps the farmers retain a greater part of their coffee’s value.

In addition to that, it has other advantages. It promotes quality improvement, as payment is based on strict quality criteria, and it provides farmers with an alternative sales channel.

## Tatrit Kunasol

### Nestlé Agronomist

#### Sawi Buying Station, Thailand

Tatrit Kunasol is 31 years old. He started working for Nestlé four and a half years ago after graduating from university with a degree in agronomy. He is now in charge of the Sawi buying station in the Chumphon Province of Thailand and supervises the six satellite buying stations in the area.

After the harvest, Tatrit Kunasol and his team of Nestlé agronomists provide agricultural advice to the 16 000 local farmers who supply the buying stations. Through a combination of farm visits and organised seminars, they explain cultivation techniques to improve both quality and yield.

“During the harvest season, we draw up a calendar so that the farmers know when to bring their coffee. Before we started this system, we often had a queue several kilometres long that disrupted the traffic on the main road nearby.

“Today, with our computerised system, we know in advance roughly how much coffee each farmer will bring. This allows us to forecast deliveries and we display in advance the dates when every farmer has to bring his coffee.

“To make sure that those delivering coffee are genuinely farmers, we have a system of identity cards. These also provide details of the size of the farm, the average quantity of coffee produced and the bank details of the farmer.

“As soon as the farmers bring their coffee, the first thing we do is check the quality to see if it meets Nestlé standards. Assuming it does, the farmer immediately receives a date of payment for the coffee. The order is transmitted via satellite to our headquarters in Bangkok and the transaction is made within days. We make bank transfers. Cash is no longer used. It is safer for everybody.

“The price of coffee is defined in agreement with our management in Bangkok. It is significantly higher than that offered by the local traders, and the pricing is transparent. The price of the day is displayed on the main street, in front of the road leading to our buying station. Last year the average price was between THB 35 and THB 40 per kilogram, which is a lot more than the local traders.”

**“The price we pay for coffee is significantly higher than that offered by local traders .”**

**Tatrit Kunasol**



**Nestlé is the world's largest direct buyer of coffee**

In 2002 Nestlé purchased 110 000 tonnes – or 14% of its needs – of green coffee directly from farmers. The company currently engages in direct procurement in six countries.

In Thailand, where direct procurement has been in place since 1991, 34 000 tonnes of green coffee were purchased directly from farmers in 2002/2003.

Nestlé has opened six buying stations in the coffee growing areas in the south of the country. These provide a selling point for 16 000 coffee farmers.

In these buying stations, farmers are the only ones allowed to sell their coffee. Rigid conditions – including the use of identity cards – are used to enforce this rule and ensure complete transparency of price.

In 2002, the average price paid by Nestlé for coffee was THB 38.70 (about USD 0.97) while local traders typically paid between THB 17 to THB 25 (USD 0.35 to USD 0.50).

# Paying farmers promptly

When a farmer sells his coffee, it is preferable that he is paid at the point of sale. If this is not possible, the farmer should at least know how long he must expect to wait for payment. Any mechanism which means that the farmer is directly paid is valuable.

In some cases, the existence of intermediaries in the coffee supply chain is necessary, for without them the farmers' coffee would never be sold.

But sometimes middlemen take advantage of a farmer's weak financial position and location in remote areas to offer him a very low price for his coffee. Others abuse their relative wealth to make loans to farmers with very high interest rates.



**In Thailand, Nestlé has a system of identity cards to make sure that those delivering coffee are genuinely farmers**

## Samarn Khaewkhongnoak

### Coffee Farmer

### Chumphon Province

### Thailand

Samarn Khaewkhongnoak is a coffee farmer in Chumphon Province, Thailand.

"A number of years ago, there was a drought in the northeast, where I was a rice grower. I decided to come to Chumphon Province to grow coffee. You have a better life as a coffee farmer than as a rice farmer.

"When I started growing coffee, the price was a lot higher than today. Then, I could get THB 75 for a kilogram of green coffee. Today, the local traders pay just THB 20, but, fortunately, Nestlé gives me THB 35-40.

"I sell all my coffee to Nestlé. They gave me a card that allows them to track the coffee back to my farm.

"When I sell my coffee, Nestlé immediately tells me how much I will receive and when it will be paid into my bank account. This way I do not need to carry money with me; when I need some, I go to the ATM in the next town."

Each bag bought by Nestlé is labelled, allowing the company to monitor the crop's journey through the coffee cycle.

**“When I sell my coffee, Nestlé immediately tells me what I will receive and when it will be paid into my bank account.”**

**Samarn Khaewkhongnoak**



#### **Nestlé and fair trade**

Nestlé recognises that fair trade is a useful way to raise consciousness about the coffee issue and for individual consumers to express their solidarity with coffee farmers in the developing world.

However, if on a broad basis coffee farmers were paid fair trade prices exceeding the market price, the result would be to encourage farmers to increase coffee production, thus further depressing prices.

Worldwide, the fair trade movement accounts for less than 25 000 tonnes of green coffee.

Nestlé’s direct purchasing accounts for 110 000 tonnes of green coffee per year. This system, which respects the market’s rules, enables the farmer to retain a greater portion of the price paid by Nestlé, thereby improving his income.

# Supporting income diversification

For many years and around the world, growing coffee has been a way for small farmers to earn an income. Coffee is a cash crop that can be easily sold and it can be grown on small areas in diverse environments.

However, with the current low coffee prices, relying solely on coffee is a precarious business. Some farmers have looked to other areas to earn an income, turning attention away from their coffee trees. In some cases, growers have completely abandoned their trees.

Roasters depend on a steady supply of high quality green coffee. This is jeopardised as soon as coffee farmers neglect their trees.

To become less reliant on coffee but continue to be able to grow it, growers need to diversify their income generating activities. This is a difficult transition for many to make, but it is possible with the right support.

## Nestlé helps farmers to diversify their incomes

Nestlé is supporting projects in a number of countries to help coffee farmers diversify their production and secure alternative sources of income. In the Philippines, the cultivation of a wide range of alternative crops has been promoted. Peanuts, bananas, coconuts, ginger, cassava, pineapples and sugar cane are all grown alongside coffee trees.

In the Tezonapa region of Mexico, Nestlé has established several projects to help coffee farmers diversify their sources of income. A fish farm, managed by teams of farmers, provides a valuable additional income for local communities, and the cultivation of tropical trees for sale is an important investment for the future.

Nestlé has provided the initial funding for these diversification projects and will continue to provide technical assistance. In the long term, with the financial security provided by these activities, Nestlé's direct support will no longer be required.

## Javier Correa Ortiz

### Fish Production Project

#### San Miguel Tenejapan, Mexico

Javier Correa Ortiz is in charge of the Fish Production Project in San Miguel Tenejapan community in the Tezonapa Region of Mexico. This project, which was started with Nestlé's support in April 2003, will soon provide local coffee farmers with an additional source of income.

"There are fourteen of us involved in this project and I am the president of the group. We are all coffee farmers and divide our time between here, La Victoria nursery and our fields. We work for four hours each day at the fish farm, feeding the fish and changing the water. The rest of the time, we tend our coffee.

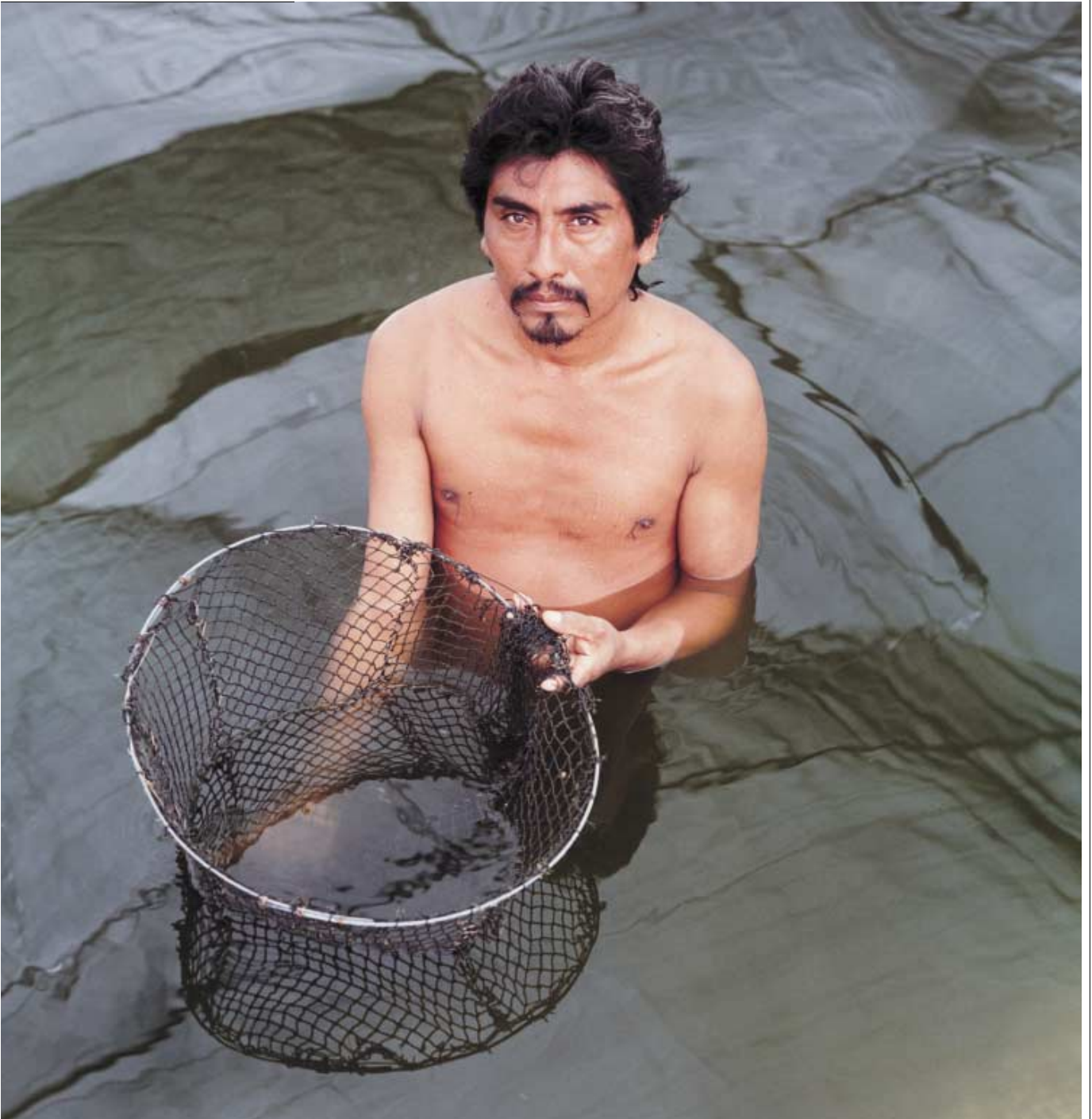
"Currently there are 1600 tilapias in the pond. They are growing fast, and the farmers are confident the project will be a success. When the fish are mature, they will be sold in the community and the profits from the project reinvested for expansion in the future.

"We are thinking about building a new pond soon. It's like having a company, now that we have our own resources.

"I don't think this would have been possible without Nestlé. It was their idea that we engage in fish production and they have provided support throughout."

**"We work four hours each day  
on the fish farm. The rest of the  
time, we tend our coffee."**

**Javier Correa Ortiz**



# Finding alternative crops





**“It is better not to rely on just one crop because prices can fluctuate. When they do, it’s good to have other crops to compensate you.”**  
**Khaun Kadkhratoak**



**Growing other crops, like durian, alongside coffee helps to stabilise the farmer’s income**

**Khaun Kadkhratoak**

**Coffee farmer**

**Chumphon Province, Thailand**

Khaun Kadkhratoak is 39 years old and a farmer in the Chumphon Province of Thailand. He has been married for 16 years and has a daughter, Kik, who is 14.

Khaun Kadkhratoak moved to Chumphon Province 18 years ago, from the northeast of the country where his family grew rice.

“I knew that the south was better because here you can grow coffee in addition to many other crops”, he says.

Now Khaun Kadkhratoak owns five hectares of coffee, which brought him about THB 200 000 last year. At the same time, the durian he grows gives him an additional income of THB 130 000. He also grows other tropical fruits, such as mangostein and rambutan, which provide him with another THB 24 000. After expenses, he has over THB 100 000 per annum in his pocket. An average factory worker in the region earns

approximately THB 50 000 per year.

“It is better not to rely on just one crop because prices can fluctuate. When they do, it’s good to have other crops to compensate you. That is why, when I came to Chumphon, I planted different crops.

“My wife works with me on the farm and, after school, our daughter gives me a hand too. We all work together and we share the tasks. During the harvest season, I pay relatives to also help with the work.”

Khaun Kadkhratoak also grows vegetables on his farm and fishes locally.

“My dream is to have a bigger farm. I am investing my savings to purchase new land. I sell my coffee to Nestlé and this allows me to get substantially more money than if I sold it to the local middlemen, as I did before.”



# Monitoring the quality of coffee

Carefully and well prepared coffee that is presented for purchasing with the defective beans removed, and free of foreign material, will result in a higher price for the farmer due to its superior quality.

A worldwide commitment to high quality coffee will also help coffee farmers in the long term. By reducing the quantity of substandard coffee being sold, quality controls help to restrict the supply of coffee to an already oversupplied international market. This will mean, in the long term, that coffee farmers will be able to command a higher price for their crop.

Furthermore, by ensuring that only high quality coffee reaches the market, coffee consumption is likely to remain buoyant.

## Nestlé and the ICO resolution 407

The International Coffee Organisation (ICO) recently passed a resolution aimed at eliminating low-grade coffee from the supply chain (ICO Resolution 407).

The Nestlé Quality Control Centres (NQCC) were created over 30 years ago to ensure that exported coffees comply with the quality requirements of the Nestlé subsidiary that ordered it.

Nestlé believes that the NQCC network in producing countries encourages and enhances a better understanding of quality and this contributes to the objectives of ICO Resolution 407.

## Severin Niampi

### Quality control, *Nescafé* factory Abidjan, Côte d'Ivoire

Severin Niampi is in charge of quality control at the *Nescafé* factory in Abidjan.

"Providing the coffee sample passes the moisture test, I set aside 100 g for a defect count. This establishes the proportion of the sample that is foreign matter – stones, etc – or bad beans. If the defect count is too high, coffee can be rejected for further sorting. Similarly, if the moisture content is too high, the coffee can be returned to the farmers for further drying.

"I check coffees that will be used here in the factory, but also green coffees that will be exported by traders to French *Nescafé* factories. It is nice to think that my work here in Abidjan contributes to pleasing the French *Nescafé* consumers."



**"I check green coffees that  
will be exported by traders  
to French *Nescafé* factories."  
Severin Niampi**



# Creating jobs in coffee-growing countries

The process that converts green coffee beans to soluble coffee that is eventually sold involves many stages and a considerable amount of technology.

A typical instant coffee factory will employ several hundred people, many of whom are highly skilled.

Nestlé's strategy of locating production facilities close to the source of green coffee wherever possible means that the value added to the green coffee remains in the country of origin.

In addition to *Nescafé* factories, Nestlé sets up many of its other production facilities in developing countries. In fact, 40% of all of Nestlé's factories are located in developing countries.

## A large share of *Nescafé* is manufactured in developing countries

Eleven out of 27 *Nescafé* factories are in coffee producing countries. About 55% of *Nescafé* is produced in developing countries – creating jobs, generating tax revenues and transferring state-of-the-art technologies.

This beneficial impact is multiplied through increased supplier activity and the presence of a well paid workforce in communities with Nestlé installations.

In addition to all of this, Nestlé's presence in a country serves to draw attention to international standards of quality, food safety and environmental awareness.



**By building factories in coffee-growing countries, Nestlé directly contributes to developing local economies**

## N'gessan Assanavo Head of *Nescafé* factory Abidjan, Côte d'Ivoire

"I started working for Nestlé on February 14, 1977. The director who recruited me put me to work unloading pallets. It's a hard job and he wanted to see if I could stick it out. I must say I wasn't enthused.

"After two years, I decided that in actual fact I wanted to be a television presenter and I made arrangements to travel to France to train. When my uncle and my parents learned of these plans, they were furious. My uncle was a director of an Ivorian company at the time. I remember he told me that if I stayed with Nestlé I would go on to earn more than him.

"Unable to make a choice, I went to speak with my line manager at Nestlé, who persuaded me to stay. I'm glad he did. Today I am in charge of *Nescafé* production. I am responsible for 67 staff, and I earn more than my uncle!

"I have had great opportunities to travel in my job, including to Switzerland, France and UK. When I travelled to France, I took with me some *Nescafé* from Côte d'Ivoire. During my meeting with colleagues from Nestlé France, I was offered coffee. I settled for hot water and added my own sachet of Ivorian *Nescafé*. We all laughed, but I really do prefer it."

**"I never thought I would be the  
Head of *Nescafé* production in  
Côte d'Ivoire, but today I am."  
N'gessan Assanavo**



# Boosting the demand for coffee

The underlying causes of low coffee prices are complex but the simple fact is that coffee consumption is not growing fast enough to absorb excess production.

Collaborative efforts and individual marketing campaigns are needed to promote consumption around the world.

Under the auspices of the ICO, the world's most important roasters have committed to the Positively Coffee Initiative. In recent years consumers have heard many negative messages concerning coffee. This initiative aims at sharing more balanced information, based on scientific research into the positive aspects of drinking coffee.

## Nestlé plays a key role in increasing coffee consumption

For many years Nestlé has led the way in increasing coffee consumption. Over the past decade, total coffee consumption has increased by 17%. Driven by *Nescafé*, soluble coffee consumption has actually increased by 35%. Nestlé alone has increased its soluble sales by 40% over the last ten years.

This is the result of intensive efforts to create and develop *Nescafé* consumption in both well established markets (Europe, North America, Japan) and younger ones (Russia, China and a number of other emerging economies).



***Nescafé* sampling efforts – in Russia, as well as in other emerging markets – contribute to increasing the demand for green coffee**

## Graham White Marketing Manager Croydon, United Kingdom

Graham White is a marketing manager for Nestlé UK. For the last five years he has been involved in promoting *Nescafé* consumption in the country.

"*Nescafé* is a great product with a fantastic heritage. If you ask people for a coffee brand they trust, *Nescafé* ranks highest. Indeed, for many people in the UK, *Nescafé* spells soluble coffee.

"However, in today's fiercely competitive market, you can trade on your past success for just so long. There is no room to be complacent, even though drinking coffee is such a popular habit.

"Today, there are so many other products that answer to customers' needs and desires. As a result, for the past few years in the UK, we have been witnessing a decline in domestic coffee consumption.

"What I particularly enjoy about my job is the challenge of finding new ways to make what are essentially 'brown granules in a jar' relevant and compelling for today's consumer. At Nestlé we spend a great deal of time talking to consumers, identifying what they want from a drink. We also continually develop and test new concepts."

**“My challenge is to make ‘brown granules in a jar’ relevant and interesting for today’s consumer.”**  
**Graham White**



# Increasing consumption in developing countries

## Soumahoro Segbeti

### Nescafé Pushcart Operator

#### Abidjan

Soumahoro Segbeti operates a *Nescafé* coffee pushcart. These are unique to Senegal and Côte d'Ivoire. Nestlé plans to have 500 *Nescafé* coffee carts operating in Abidjan by December 2004.

Each morning Soumahoro Segbeti collects his cart from the Nestlé offices close to the industrial port in Abidjan and steers it to the main market in Koumassi. It is a 7 km walk.

He stops regularly along the way to sell cups of *Nescafé* to his customers. Soumahoro Segbeti has a good rapport with many of the offices along the route and serves them daily. He has at least 80 loyal customers, each of whom pays CFA 100 for a cup of *Nescafé*.

Soumahoro Segbeti's cart has been repainted three times and upgraded once since he took possession of it in December 1997.

"Nestlé provides me with a thermos, and I buy supplies of *Nescafé* from the company. I earn about CFA 48 000 per week, which pays my rent and provides my wife and me with a good livelihood. I'm saving to buy a kiosk, or two!

"I prefer it when it rains a little. People prefer to drink coffee in the drizzle. I'm a good salesperson, explaining to my customers that *Nescafé* is good with food, or after food. Every time of day is coffee time for me and my customers!"



**Soumahoro Segbeti is one of the many pushcart operators that sell *Nescafé* in Côte d'Ivoire**



**"I earn about CFA 48 000 per week, which pays my rent and provides my wife and me with a good livelihood."  
Soumahoro Segbeti**



# For many farmers, coffee growing still has a future

Through technical assistance and seedlings distribution, diversification projects and quality improvement initiatives, farmers can be supported in their efforts to improve their income: quality coffee and reliance on more than coffee are two proven ways to increase one's revenues.

At the same time, buying coffee directly from the farmers and support to co-operatives are approaches that allow farmers to retain a larger portion of their coffee's value.

In many parts of the world, these kinds of partnerships are being developed and allow farmers and their families to see a future in coffee growing.

But there is more to be done to solve the overall situation: consumption needs to be increased in order to reduce the imbalance between supply and demand. And more of the value of coffee processing needs to remain in the coffee-growing countries. The companies which locate factories in developing countries help local economies and create jobs.

## Nestlé and low coffee prices

Nestlé is against low green coffee prices and is concerned for the farmers and their families who depend on coffee for a living. Through the numerous programmes and assistance it gives, Nestlé contributes to the wellbeing of coffee communities.



**After school Kik Kadkhratoak helps her parents on the farm**

**"My father told me that it is thanks to the price he gets for his coffee that he is able to support my studies."**

**Kik Kadkhratoak**



**Kik Kadkhratoak**

**14 years old**

**Chumphon Province, Thailand**

Kik Kadkhratoak's father is a coffee farmer in the Chumphon Province of Thailand. She is 14 years old and attends the secondary school in her village.

When she is older she wants to be a policewoman, or possibly a soldier.

"I have three more years of school and then, if I want to enter the police force, I will have to study at the university."

Kik is very fond of the coffee growing area where her family lives. After school, she helps her parents on the farm.

"In order to be a policewoman, I first need to go to the university. I would like to study mathematics at the Chulalongkorn University in Bangkok. It is one of the best universities in the country."

Her father is proud that his daughter has such ambitious plans for her future, and that, thanks to the money he gets from Nestlé for his coffee, he can afford to pay for her studies.

A person wearing a dark suit is shown from the chest up, gesturing with their right hand. The background is a blurred office setting with a light-colored wall and a dark rectangular object, possibly a screen or picture frame. The overall tone is professional and modern.

# The future of the coffee world



It is unlikely that coffee prices will ever reach the previous highs. Unless a major climatic disaster should occur, the ability of farmers in countries like Brazil to react rapidly to favourable market conditions and produce coffee at lower costs using the latest agricultural techniques will ensure a strong supply of coffee. However, there are measures which can help coffee farmers improve their livelihoods and obtain an acceptable standard of living.

It is partly the responsibility of the wealthy countries to respond to this crisis. "There is no easy solution," says Peter Brabeck-Letmathe, CEO of Nestlé S.A. "Present low coffee prices are the result of a global excess supply. Concerted efforts are needed to bring supply and demand in balance to a point where the prices allow the average producer to receive an acceptable return for his labour and investment.

"Thus, action is needed on both demand and supply sides. The primary and most direct responsibility of companies such as Nestlé lies on the demand side with the promotion of coffee consumption. But I believe it is also our task to voice our support for a faster liberalisation of trade. Developing countries are currently victims of the developed countries' subsidy policies."

Companies are not the only ones which need to be taking responsibilities. Governments, civil society, coffee companies, as well as the growers themselves, each have an important role. "In the coffee-growing countries, farmers need to be supported in their efforts to increase their revenues. Those farmers who have the potential to improve the quality of their supplies should be helped in this process. Simultaneously, it is important that growers diversify into other productive pursuits with better returns."

### **Farmers need to diversify their sources of income**

The most efficient way to reduce an imbalance in the market is to operate at both ends of the chain. A consumption increase is an important part of the solution, but that alone will not solve the problem. Today, too many farmers rely on coffee as their only source of income. Such dependence makes it very difficult to survive when the commodity's prices are low. If they could count on other sources of income, they could adapt their production level to the price situation.

For Peter Brabeck-Letmathe, this is the main strategy that could help the growers. "Farmers who today have diversified their income and those who planted additional crops are less affected by the fluctuations of the coffee price. I believe it is the area on which we should focus the most. Farmers should be enabled to make informed choices. Training programmes and projects need to be set up to that effect.

"At Nestlé, for example, we have adopted this approach in the technical assistance we give to farmers. We support practical projects such as the fish farm we helped to create in Mexico and the diversification project we support in the Philippines. These are concrete examples of what a company can do to support diversification."

Diversification is made difficult or even impossible when the natural alternatives are crops which are subsidised by western countries. This is the case, for example, with sugar or soya beans, crops that could replace coffee in some regions: it is not profitable to grow them, as farm subsidies in the United States and the European Union are artificially lowering the world market prices for these commodities.

"At Nestlé, we believe that these trade barriers are not fair for the farmers of the developing world. They effectively reduce the capacity of many poor countries to overcome their problems. These subsidies have a real cost not just in dollars and euros, but also in lost education, health and livelihoods for millions living in the world's poorest rural communities. Subsidies export poverty."

However, diversification is not an end in itself, but a way to reduce some farmers' vulnerability. Competitive producers should not be constrained to diversify.

### **Raising and stabilising coffee prices**

Some programmes are in place to give higher income to farmers through paying a subsidised price which is above the price set by the market. The fair trade movement, for example, has succeeded in selling coffee to some retail customers at a higher price, for which a premium above the market price is paid to cooperatives.

"I believe that this movement has delivered benefits to some coffee farmers around the world. More

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**"I believe that trade barriers  
are unfair to the farmers of  
the developing world."**

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**Peter Brabeck-Letmathe**

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importantly, it has also raised the consciousness of western consumers about the situation coffee farmers face. But fair trade can only work in a niche market. If it were widely expanded, it would quickly increase the global oversupply of coffee and depress coffee market prices further. The industry as a whole needs to bring solutions adapted to the whole community of coffee farmers," says Peter Brabeck-Letmathe.

"Support schemes are urgently needed to protect coffee farmers of developing countries in open global markets from wide price fluctuations, such as the very low coffee prices of the recent past.

"The development of mechanisms to stabilise export earnings by providing better access to the International Monetary Fund Compensatory Financing Facility, or by reviving the European Union's scheme to stabilise export earnings (Stabex), is a high priority. It is an area in which the International Coffee Organisation could play a leadership role with the international financial organisations, banks and coffee traders.

"Stabilising export earnings has a number of advantages over buffer stocks and other schemes that directly interfere with commodity supply and prices. Since such schemes are not aimed at keeping prices artificially high, there is less risk of unnecessarily prolonging periods of oversupply. They can, however, help cushion some of the effects of the worst slumps."

### Coffee-growing countries need investment

The long-term interests of consumers depend on a stable coffee sector in which farmers have security, and producer economies enjoy benefits from the coffee industry. The farmer is a producer, but he is also part of a wider community and economy. "Nestlé is committed to developing the viability and stability of the coffee industry, starting with the first step in the production chain."

It is during the process that converts coffee beans to instant coffee that the majority of the added value takes place. Nestlé produces over 55% of its *Nescafé* in factories located in developing countries – creating jobs, generating tax revenues and transferring state-of-the-art technologies.

In some coffee-growing countries where Nestlé has a *Nescafé* factory, the company has put in place direct purchasing from the farmers. This system allows the

farmers to bring their produce directly to a buying station, thus retaining for themselves a larger portion of the value of their coffee. This mechanism accounts for some 110 000 tonnes of green coffee, which represents 14% of the company's needs. In addition to that, technical assistance is given free of charge to coffee farmers.

### Research and improving coffee crops

Another important element for Peter Brabeck-Letmathe is the investment Nestlé makes in research. "In our research centre based in Tours, France, we are active in fields such as coffee selection, multiplication techniques (somatic embryogenesis) and molecular markers, as well as cryostorage.

"Nestlé also collaborates and provides assistance to research centres in Mexico, Thailand and Indonesia, offering free training in Tours, France, to scientists working in these institutions. Recently, Nestlé launched a new collaboration programme with the Jimma Coffee Research Centre in Ethiopia. One of their scientists will be trained in France and Nestlé will provide technical advice to the Centre."

Nestlé has also established a collection of 250 proven high quality coffee varieties from around the world. These are offered free of charge to the countries that have contributed to the collection, enabling them to conduct plant improvement programmes using the best varieties for their climate and conditions.

### Increased consumption

Unfortunately, the increase in coffee consumption has not been as rapid as that of production. In 2002/2003, 111 million bags of coffee were produced, while approximately 109 million bags were consumed. This has added to the already large stock of coffee which has accumulated over the past years.

However, as noted above, Nestlé has significantly contributed to an increase in consumption. Over the past ten years, *Nescafé* consumption increased by 40%, leading the way in increasing worldwide total coffee consumption by 17%.

"Roasters like Nestlé are engaged in promoting consumption. This is good for our company as much as for the coffee farmers. The more coffee people drink,



**“It is vital that all stakeholders work together to improve the coffee chain.”**

**Peter Brabeck-Letmathe**



the more opportunities there will be for growers to increase their income by producing green coffee.”

Nestlé makes significant investments in marketing efforts to promote coffee consumption. It also actively supports initiatives aimed at promoting coffee consumption, in particular the Positively Coffee Initiative. This initiative aims at providing the medical profession and the general public with information drawing on independent scientific studies that show the health benefits of coffee. If this initiative succeeds, it will be possible to dispel prejudices and create positive attitudes that could lead to an increase in consumption.

#### **Low prices benefit nobody**

At first sight it might be assumed that low prices are good for a company such as Nestlé. However, low prices are not only bad for farmers, but also bad for Nestlé. The first negative impact of low coffee prices is that they lead inevitably to a lowering of the raw material's quality, making it more difficult to find

the coffees needed to meet the company's standards for its products.

Secondly, it is good for Nestlé's business to have strong and wealthy economies around the globe. “The millions of farmers who grow coffee are also consumers of food products,” observes Peter Brabeck-Letmathe, “and when their income lowers, they cannot consume as much as they would normally. It is therefore in Nestlé's interest that coffee prices remain stable and above production costs.”

#### **Engaging with all stakeholders**

For Peter Brabeck-Letmathe, finding ways to help the coffee farmers needs to be done in collaboration with all the stakeholders. “Nestlé believes that, in this context, it is vital that all stakeholders work together to find appropriate solutions: governments, roasters, traders, growers and NGOs must collaborate to find ways to improve the coffee chain. This is the reason for my involvement in the United Nations' Eminent Persons Group.”

Called upon by the United Nations General Assembly and under the auspices of the United Nations Conference on Trade and Development (UNCTAD), an appeal was signed by 15 eminent persons, including Peter Brabeck-Letmathe. The aim of this group is to propose global solutions in the area of commodities issues. "I think that there is a wide range of actions which can improve the conditions on commodity markets and thus help to alleviate the poverty of many producers," says Peter Brabeck-Letmathe. "In the case of coffee farmers, I believe that addressing the problem of oversupply and creating optimal conditions for easier market access are the best ways to support them."

In collaboration with two other food companies, Nestlé founded the Sustainable Agriculture Initiative (SAI). A coffee working group of eight companies has been created and is working to identify ways to help coffee growers.

Nestlé also backs the Common Code for the Coffee Community (CCCC), which was initiated by the Deutscher Kaffeeverband (DKV), the German coffee association, and the Gesellschaft für Technische Zusammenarbeit (GTZ), the German agency for technical co-operation. This multi-stakeholder platform aims at defining a code for establishing sustainability in the coffee chain from the coffee tree right through to the end product. Representatives of the industry, civil society and growers themselves are working together towards sustainable coffee production.

Through DKV, Nestlé is one of the founders of CCCC and is presently an active member of the Steering Committee and the Environmental Working Group. All member companies of the SAI coffee group actively participate in this initiative.

### **Grounds for hope**

"Today, coffee is a powerful practical link between diverse communities in the North and the South," says Peter Brabeck-Letmathe. "It is a global industry which, if properly developed, can continue to invigorate many different cultures, and provide a solid livelihood for millions of farmers and for rural communities. At Nestlé, we are optimistic about the coffee industry and we are committed to playing our part in making it work for producers and consumers alike."

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Good Food, Good Life