# An alternative approach to ensure forest protection

**Like other commodities, mainstream or commercial coffee is bought according to the market's quality definitions and standards set by the European clients. The added value is in the fact that when consumers drink their favourite cup of coffee, the taste profile will be identical to the previous cup. It is for this reason that manufacturers need to ensure that the taste profile of their coffee is always, in its unique way, the same, which may only be achieved by buying coffee as a commodity and blending it accordingly at the processing mill or cooperative.**

Coffee singularities: (i) each 20 foot coffee shipping container could account for up to 4.500 different individual locations; (ii) some producing countries such as in East Africa have specific regulatory frameworks that make it mandatory to by coffee at an Auction where it is only relevant to disclose the name of the cooperative and (iii) 50% of all coffee, representing over 6 million coffee farmers is disenfranchised and thus mostly being sold directly by the farmer to different intermediaries along the supply chain. As a result, **plot geolocalization for mainstream coffee would be a struggle and a burden for all operators.**

Given the complexity of ensuring complete traceability to the coffee supply chain, **a risk assessment approach to deforestation would allow to focus on where the problem is today and at the same time ensure that areas without an issue do not have one in the future.**

**Step 1**. The definition of the producing countries level of risk would follow a harmonized approach specific to each commodity. A common approach suggestion would be the assessment provided by the EU's Earth Observation Program (Copernicus) that offers a comprehensive mapping of areas at risk of deforestation that should be in alignment with national interpretations of producing countries.

**Step 2.** Each producing country would be broken-down, following a standardized criteria, into provinces, regions, municipalities or jurisdictions.

**Step 3.** Based on a cut-off-date (31/12/2020), the identified risk areas (Copernicus) would be cross referenced with supply chain mapping information (Galileo).

- For high-risk areas, import into the EU would not be feasible until there is proof that there is local/national/company engagement in a regeneration program with a specific target and progress made to evolve into a medium risk area.
- For medium risk areas, import into the EU would require traceability to the area/municipality and proof that there is a local/national/company engagement.

  Producing countries local and national authorities should be at the heart of developing and ensuring compliance with the framework agreement featuring a roadmap, target and timeline. These framework agreements between public, private and civil society stakeholders should aim to favour more productive land and improve livelihoods, whilst protecting natural resources, most notably forests.
- For low-risk areas, no further requirement other than traceability to the region level. An annual update required to ensure that the commodity is still being sourced from a low-risk area.

The aim would be to create an enabling environment to fight deforestation in medium and high-risk areas by promoting regenerative agricultural ecosystems in strong partnership with producing countries. With this approach we would be ensuring free deforestation supply chains and providing solutions towards reforestation. The Regulation would be actively contributing to curbing global deforestation by **avoiding diverting risk to other markets.**

**EUROPEAN COFFEE FEDERATION**
**Telf:** +32 (0) 479 62 25 20 **Email:** egordon@ecf-coffee.org
www.ecf-coffee.org **EU Transparency** register - 958482431512-92

## The sectors commitment

The European coffee sector welcomes the publication of the new European Commission Proposal for a Regulation on commodities and products associated with deforestation and forest degradation, understanding that it is necessary to ensure that the risk is not diverted to other markets if the aim is to curb global deforestation.

Over the years, the coffee sector has been involved in numerous initiatives to improve sustainability, fairness and transparency along the coffee supply chain[1]. **The leading principle of the sector's initiatives has been to improve the living conditions of local farmers to establish more sustainable and fair practices in the coffee value chain while contributing to economic progress for local coffee farming communities.** According to the 2018 coffee Barometer, USD 350 Million are spent every year by the coffee sector to build a more responsible supply chain.

As for the key drivers for better land management and reforestation in coffee producing countries, these would be escalating agroforestry as well as crop diversification. You many find many private projects and industry-wide voluntary initiatives such as Coffee & Climate, the Sustainable Coffee Challenge (SCC), the Global Coffee Platform (GCP) or World Coffee Research (WCR) with specific schemes focused on SDG 15.

The past years have also seen a continuous evolution of processes, tools and technology across the different Voluntary Sustainability Standards (VSS) with the most prevalent being in the green coffee sustainability certification programs such as 4C, Rainforest Alliance & UTZ, Fairtrade, Organic as well as private sector standards like Starbucks' C.A.F.E. Practices and Nespresso's AAA Guidelines. These programs allow for segregated traceability of coffee lots back to an identified farmer or farmer group which has been independently checked under statistically relevant and risk-adjusted processes for the absence of deforestation prior to a specific cut-off-date specified in the programs' standard. Today, approximately 20% of coffee imported into the EU is certified under a VSS.

The Coffee Public-Private Task Force of the International Coffee Organization also plays a crucial role in building synergies and consensus in the coffee sector. It has brought together a range of actors from public sector representatives of ICO Member countries (including the EU), private sector companies and supporting organisations to implement the "London Declaration". This wide-ranging pledge aims at improving the living conditions of coffee producers and at promoting competitive and sustainable production and sourcing practices.

We now reaffirm ourselves in our commitment to driving long-term sustainability in the coffee supply chain, aiming at identifying the best way to ensure compliance with the objective of the Regulation.

## The coffee supply chain

Coffee is imported into the EU from more than fifty countries and is a key contributor to the economic and social development of the coffee producing countries. Coffee is cultivated on 12.5 million coffee farms, out of which 85% are smaller than 2 hectares, having been estimated that smallholder farmers produce up to 73% of all coffee. To also be noted is that one quarter of these farms are managed by women, providing up to 70% of the labour in coffee production.

**Like other commodities, mainstream or commercial coffee is brought according to the markets quality definitions and standards set by the European clients.**

[1] An overview of the coffee sustainability landscape is available at https://www.ecf-coffee.org/category/sustainability/

For mainstream coffee, the origin of the coffee is not of any added value, given that its main characteristic is having the capability of achieving a unique taste profile in the cup. Consumers wish for their favourite cup of coffee to taste the same every time they enjoy one. Thus, manufacturers need to ensure that the taste profile of their coffee is always, in its unique way, the same, which may only be achieved by buying coffee as a commodity and blending it accordingly.

**To adapt to the EU market's quality definitions, 95% of the coffee that reaches a processing mill or a cooperative will be classified, blended and homogenised in compliance with the importing market and clients' requirements.**

Because of how the coffee value chain is structured, in each 60kg bag of green coffee it would be possible to find beans from up to 100 different locations, whilst in each 1-ton big bag you would be able to identify coffee beans from up to 1.500 different locations. Moreover, to fill up one single Twenty Foot shipping container you would require approximately 320 kg bags of green coffee. As a result, **each shipping container could account for up to 4.500 different individual locations.**

Each year approximately 120.000 Twenty Food Equivalent Units (TEUs), enter the EU market, consolidating our position as the largest coffee market in the world accounting for one-third of global consumption.

## Coffee producing countries regulatory framework

Many coffee producing countries have specific legislative frameworks that regulate the selling of coffee.

In East African Coffee producing countries such as Kenya[2], Tanzania[3] or Ethiopia[4] it is mandatory that coffee is bought at Auctions. Taking Kenya as an example, under their national legislation, vertical integration is not allowed and controlled via a licensing system. As a result, a coffee exporter is only granted a license to procure coffee from the Auction, and thus will know the name of the cooperative that supplied the coffee but not of the farmers that supplied to the cooperative. Cooperatives have no obligation to divulge the names of the cooperative farmers.

As a further example, in Vietnam[5] their national coffee legislation establishes that foreign-invested enterprises that have been licensed to export goods may only directly purchase goods from Vietnamese traders who have a business registration or have the right to import or distribute such goods for export. Foreign invested enterprises are not allowed to organize a network to buy and consolidate goods in Vietnam for export, including opening locations to buy and collect goods for export.

## Producing country coffee suppliers

Overall, commercial coffee is currently purchased in one of the following ways:

- 20% is purchased via a VSS such as 4C, Rainforest Alliance or Fairtrade. This certified coffee may be in turn acquired from an Auction or cooperative.
- 30% is purchased directly via, auctions, cooperatives or larger trader groups.
- 50% (over 6 million farmers) is disenfranchised and thus in most of the cases being sold directly by the farmer to different intermediaries along the supply chain.

[2] Kenya. The Crops Act - Coffee Act chapter 333
[3] Tanzania. Government notice Number 385 published 11/10/2013 - Coffee Industry Act
[4] Ethiopia. Regulation 474/2020
[5] Vietnam. No: 08/2013/TT-BCT XX - 22 April 2013

The role of the intermediaries is extremely important in the coffee sector given that they provide services and most of the time finance to the coffee smallholders who do not have any options in the formal financial market to access credits. Given the seasonality of coffee, smallholders face frequent cash problems to sort their urgent needs or invest in their coffee farms.

## Risk Assessment approach

Given the complexity of ensuring complete traceability to the whole supply chain, a risk assessment approach would allow focus to be made on where the specific problem is today and at the same time ensure that areas without an issue do not have one in the future.

**Step 1. Definition of the risk associated to each commodity in each area**

Identify the levels of risk: low, medium, high.

The definition of the producing countries level of risk should follow a harmonized approach and be specific to each commodity based on a common approach such as the following:

1. Copernicus as the EU's Earth observation program offers a comprehensive mapping of areas at risk of deforestation. Their mapping features a risk classification according to the level of risk of the different areas that should be in alignment with national interpretations of producing countries.
2. Producing countries national assessment based on a recognized uniform criterion.

**Step 2. Identification of risk areas/municipalities**

Define the risk area/municipality for each producing country, as appropriate

To be noted that there is no uniformity in the way a country surface is broken-down. What is considered as a province in one country may be known as a state, region or area in another.

Thus, it is important that there is a standardized country breakdown criteria for each producing country to ensure that when we refer to an area or municipality, all stakeholders understand the same.

As a lack of uniformity breakdown example:

| Country | Province/State | Area | Municipality | Farm/Coop | | |
|---|---|---|---|---|---|---|
| Colombia | Tolima | San Fernando | Libano | | | |
| Mexico | Oaxaca | Sierra Sur | San Sebastian Coatlan | | | |
| | | | | | | |
| **Country** | Region | **Province** | **District** | **Municipality** | Farm/Coop | |
| Vietnam | Central Highlands | Lam Dong | Bao Lam | | | |
| | | | | | | |
| Country | Region | Zone | Woreda | Kebele | Wet Mill | Farm/Coop |
| Ethiopia | Oromia | Jimma | Limu Seka | Seka | | |

Define the cut-off-date

The cut-off-date set for 31 December 2020, based on which risk areas/municipalities shall be classified as follows:

- Low risk: no deforestation after 31 December 2020
- Medium risk: deforestation after 31 December 2020 with mechanisms in place that are ensuring forest regeneration.
- High risk: deforestation after 31 December 2020 with NO mechanisms in place to ensure forest regeneration.

**Step 3. Agree on the Process**

- Based on the cut-off-date, cross-reference areas/municipalities with the commodity supply chain mapping information.
    - Low risk: no further requirement other than traceability to the region level.
    - Medium risk: import into the EU would require traceability to the area/municipality and proof that there is a local/national/company engagement.

      Producing countries local and national authorities should be at the heart of developing and ensuring compliance with the framework agreement featuring a roadmap, target and timeline. These framework agreements between public, private and civil society stakeholders should aim to favour more productive land and improve livelihoods, whilst protecting natural resources, most notably forests.
    - High risk: no import possible into the EU until there is proof that there is local/national/company engagement in a regeneration program with a specific target and progress made to evolve into a medium risk area.

  To be noted that certified coffee is usually acquired from low-risk deforestation areas.
- Determine appropriate ways to eliminate the hazard or control the risk when the hazard cannot be eliminated (risk control).
- Updates:
    - Every year there should be an update of the risk areas/municipalities with a cross-reference with the supply chain mapping information.
    - Every year producing countries local/national authorities to ensure compliance with the framework agreement to guarantee that the risk is being controlled and or eliminated.

The aim will be to create an enabling environment to fight deforestation in medium and high-risk areas by promoting regenerative agricultural ecosystems in partnership with producing countries local and national authorities, public, private and civil society.

With this approach we may ensure deforestation free supply chains, avoid risk to be diverted to other markets and provide solutions towards reforestation.

**Supply chain mapping & traceability technology to ensure no further deforestation in medium and high-risk areas.**

Over the past months the European Coffee Federation has reached out to different service providers that offer traceability and supply mapping solutions aiming to find the ideal solution that would help ensure the level of traceability suggested by the Proposal.

Within the Regulation Proposal two requirements are considered essential to ensure compliance:

- Coffee farm geolocation
- Coffee "bag/container/shipment" chain of custody

**From our different meetings with the service providers, we have come to the realization that ensuring meaningful coffee farm GPS coordinates as well as the chain of custody of this information to each container imported into the EU is not feasible and moreover not an immediate solution to ensure compliance with the objective of the Regulation.**

It is for this reason that we propose EU policy makers to consider taking a more **holistic approach, inclusive of smallholder farmers, that examines and maximises the value of credible voluntary sustainability schemes by extending their role in the due diligence process**, while incentivising reforestation and forest regeneration. It can also be taken as a unique opportunity to constructively partner up with producing countries allowing for direct engagement to develop national traceability systems by incentivising public-private sector collaboration.

**Complimentary to the VSS, we propose to also continue building on the risk assessment approach taken by industry over the past years and that has been** nicely tabled by IDH/Proforest with whom many coffee manufacturers and traders currently collaborate. It this collaborative spirit, IDH shall be shortly putting their theory into practice by running a pilot project to ensure on the ground effectiveness.

**By taking a risk assessment approach we ensure monitoring and control of low-risk areas and appropriate traceability in medium and high-risk areas, contributing to the eradication of deforestation whilst favouring the regeneration of forests.**

As by now aware, plot of land geolocalization plus information chain of custody for mainstream coffee sourced from the 12.5 million farms scattered between the Tropics, is currently not feasible. However, to ensure that an appropriate traceability is possible for medium and high-risk deforestation areas, we have been in direct contact with Galileo and the EU Agency for the Space Programme (EUSPA), that are considering to take coffee as a case study to develop a pilot project in which they would be cross referencing the Copernicus (EU's Earth Observation Program) and Galileo (EU's Global Satellite Navigation System (GNSS)) data, to determine how the coffee sector can best ensure a traceability in line with the objective of the Regulation.

Overall, it becomes apparent that applying the same rules and definitions for significantly different supply chains does not match the realities on the ground and will make it difficult for both operators and national control authorities to implement the Regulation. Where necessary, **we encourage the Commission to develop guidelines laying down specific rules on due diligence requirements, traceability tools and liability rules in the supply chain for the different commodities**. Those rules should also be **harmonised** as much as possible with the due diligence rules set out in the forthcoming **Sustainable Corporate Governance Directive**.

**In all, despite the specificities inherent to the coffee value chain, the coffee sector continues committed to increasing its transparency and traceability and will continue to work on and promoting initiatives to improve the living conditions of millions of local farmers and small producers in producing countries while dedicating resources to minimising the impact upon the environment.**

For further information:

- The journey of the coffee bean
- Coffee deforestation initiatives
- The journey of a Brazilian Coffee Bean
- The story behind a Colombian Coffee Bean
- ECF reactive statement to the Deforestation Regulation proposal

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**Telf:** +32 (0) 479 62 25 20 **Email:** egordon@ecf-coffee.org
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