



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

EB 3943/08

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Executive Board
266th Meeting
24 January 2008
London, England

Decisions Adopted
(266)

1. The Executive Board, chaired by Mr. David Brooks of the USA, met on 25 January 2008.

Item 1: Adoption of the Agenda and schedule of meetings

2. The Board adopted the draft Agenda contained in document EB-3939/07 Rev. 1 and took note of the schedule of meetings.

**Item 2: Votes in the Council and Executive Board
for coffee year 2007/08**

3. The Board took note of the situation of outstanding payments affecting voting rights as at 23 January 2008 and approved the redistribution of votes in the Council and Executive Board for coffee year 2007/08 contained in document EB-3934/07 Rev. 1.

Item 3: Membership of the International Coffee Agreement (ICA) 2001

4. The Secretary said that as at 24 January 2008, there were 77 Members of the Organization, comprising 45 exporting and 32 importing countries. In the case of EC countries which still needed to complete the formalities for the ICA 2001, procedures for membership were contained in document ED-1800/01 Rev. 11. Under the provisions of Resolution 434 the deadline for depositing instruments of ratification, acceptance, approval or accession had been extended until 30 September 2008.

5. In the case of non-member countries, the Secretary reported that Resolution 435 extending the time-limit for accession by Timor-Leste to 30 September 2008 had been transmitted to the Government of Timor-Leste. The ICO had met representatives of Liberia

and Sierra Leone during the General Assembly of the InterAfrican Coffee Organisation (IACO) in Cameroon in November 2007. Both countries had confirmed their interest in rejoining the ICO, and the Executive Director had written to their representatives to provide the necessary information. Liberia had subsequently confirmed that it wished to renew its membership, but had appealed for its outstanding contributions to be waived in view of the conflict situation in the country during almost two decades. Liberia's request would be considered by the Finance Committee in May 2008. The Executive Director added that in the case of non-members such as Canada, China, Peru and the Russian Federation, he would renew his contacts with these countries and request them to consider membership in the context of the new Agreement. With regard to the Russian Federation, he had recently had the opportunity to discuss the ICA 2007 with the representative of this country and would arrange a series of further meetings during the next few weeks. The Board took note of this report.

Item 4: Annual Review 2006/07

6. The Executive Director introduced the Annual Review for coffee year 2006/07. This was the eighth Annual Review published by the ICO and contained an overview of activities during the past coffee year. It included a report on the coffee market situation in 2006/07, a report on the negotiations of the 2007 Agreement and reports on regular activities such as projects, statistics and the Coffee Quality-Improvement Programme.

7. In response to questions on this item, the Executive Director confirmed that the Annual Review was distributed to all Members, non-member countries and a range of international organizations, and additional copies could be made available to Members on request. For budgetary reasons, the number of printed copies was limited, however the Review was available in electronic form on the ICO website which received around 30,000 hits per month. The Board took note of this information.

Item 5: Coffee market situation

8. The Executive Director introduced the monthly report on the market situation (December 2007). He noted that coffee prices had maintained the firm upward trend recorded in recent months, however the weakness of the US dollar had reduced the favourable impact of this increase. The average of the ICO composite indicator price had reached over US\$118 cents per pound in December, with Robusta prices breaking the US\$1.00 barrier on 11 January 2008 for the first time in nearly 12 years. CONAB had published the first estimate of Brazilian production for crop year 2008/09 which indicated a figure of between 41.3 and 44.2 million bags, comprising 31.5 to 33.7 million bags of Arabicas, and 9.8 to 10.5 million bags of Robustas (see document WP-Council 163/07 Rev. 1). The ICO's preliminary estimate for the 2008/09 crop was between 123 and 126 million bags, compared with around 116 million bags in 2007/08. In the case of

consumption, if the annual growth rate of 1.5% to 2% was maintained, world consumption would rise from 123 million bags in 2007 to more than 125 million bags in 2008. He noted that domestic consumption in Brazil was currently over 17 million bags per year, and continued to increase steadily.

9. In the case of exports, these had totalled 95.8 million bags during the period December 2006 to November 2007, compared to 90.9 million bags for the same period in 2005/2006. The volume of opening stocks in exporting countries for crop year 2007/08 was around 25 million bags, compared to 29 million bags at the beginning of crop year 2006/07. Stocks of green coffee in importing countries were estimated to be around 22.6 million bags. The report analysed the fluctuation of the dollar in some exporting countries, which had partially offset the recovery of prices. In Brazil for example, while the value of green coffee exports had increased by 132% between 2003 and 2007, the value in the national currency only increased by 49.4% as a result of depreciation in the US dollar. However, in other countries there had been a devaluation of the national currency, such as Ethiopia, Honduras, Indonesia, Mexico and Vietnam, and this had benefitted exports. This issue would be reviewed in future studies, together with the impact of increases in fertilizer prices and labour costs. The ICO continued to monitor exports to exporting countries, which were currently estimated at between 3.5 to 4 million bags per year, however more data was needed from producing Members to provide a more accurate overview of the situation. In conclusion, coffee prices should continue to develop along the recent trend seen in the composite indicator price of US\$1.20, with some volatility as a result of the boom experienced in the commodity sector.

10. In discussions on this item, the need for more information about exports to exporting countries, including re-exports from importing countries, was highlighted. Members were requested to provide data on these areas to enable trends to be analysed. The firm trend in consumption and quality was noted. A number of Members raised the need to analyse the current economic situation and the impact of a possible recession in major consuming countries on the coffee market. One Member noted that there had been an increase in the top end of the market such as speciality and high quality coffees, which could be affected by a recession. The Executive Director noted that while the ICO was not in a position to predict the impact of the wider economic outlook on the coffee market, it could analyse specific issues such as increases in oil prices on the coffee sector. Regarding data from other organizations, he confirmed that the ICO had access to economic data and analysis from organizations such as the World Bank, FAO etc. and could look at making more use of this.

11. Members took note of the report on the coffee market (December 2007) and of document WP-Council 163/07 Rev. 1, and expressed their appreciation to the Executive Director for his analysis of the market situation.

Item 6: Coffee development projects

Item 6.1: Projects under consideration by the Common Fund for Commodities (CFC)

12. The Head of Operations introduced the progress report on projects contained in document EB-3942/08 Rev. 1. He informed Members that in October 2007, the CFC Executive Board had approved two projects, namely ‘Increasing the resilience of coffee production to leaf rust and other diseases in India, Kenya, Uganda, Rwanda and Zimbabwe’, with a total cost of US\$4,014,313, which would be launched in early 2008. It had also approved the project ‘Access to finance for the development of diversification crops in coffee producing areas in Burundi and Côte d’Ivoire’, with a total cost of US\$3,006,570. The project agreement for this project would be signed during the Council Session on 25 January 2008. The project would be implemented by the Fonds de Garantie des Coopératives Café-Cacao (FGCCC) in Côte d’Ivoire, and by the Office du Café du Burundi (OCIBU), and would be launched in early 2008.

13. The CFC Consultative Committee would consider the proposal ‘Revitalizing productivity, quality and trade in coffee from Africa’ in January 2008, and the Executive Director would report to Members at the next meeting on the Committee’s decision. The CFC Consultative Committee would consider two further ICO projects ‘Competitive coffee enterprises programme’ and ‘Building capacity for coffee certification and verification in Eastern Africa’ in July 2008. In the case of the former, the CFC Project Appraisal Committee (PAC) had recommended in October 2007 that Jamaica should be included and that the project should be reformulated, and was prepared to finance the cost of a consultant for this purpose. In the case of the latter, the PAC had made some technical comments and the Eastern African Fine Coffees Association (EAFCA) had submitted its response to these comments to the CFC. With respect to the project entitled ‘Renovation of CATIE’s international coffee collection’ which was approved by the Council in September 2007, the ICO would discuss the possibility of merging this with the proposal ‘Enhancing use of coffee germplasm – an African perspective’ with the FAO in early 2008.

14. The Head of Operations said that progress reports on projects already being implemented would be circulated to the Council in May 2008, together with the final reports of projects which had recently concluded. He noted that the project entitled ‘Increase in added value by developing the potential of Gourmet Robusta coffee’ had been launched in Gabon in November 2007. In the case of the project entitled ‘Enhancing the potential of gourmet coffee production in Central American countries’, Costa Rica had advised the ICO that it could no longer participate.

15. The Board took note of this information, and of the progress report on projects contained in document EB-3942/08 Rev. 1. In response to a question about the procedures

for informing the Council about projects requiring reformulation in the light of comments by the CFC, the Executive Director said that the ICO kept Members informed about this process, however the projects did not need to be resubmitted to the Council for approval.

16. The Projects Officer summarized the procedures for considering projects. Following consideration by the Virtual Screening Committee (VSC), they were submitted to the Board and subsequently the Council for approval. Where the Council approved proposals which did not match CFC priorities, the ICO had to seek other sources of funding. The CFC's policy was increasingly only to provide up to 50% of the costs of a project. It considered that participating countries should contribute at least 10% of the costs, with the remainder provided by other agencies or counterpart funding. The contribution by the participating countries was intended to increase ownership and facilitate the future replication of projects in their countries once pilot stages had been completed. The CFC had recently advised the ICO that the loan component of projects should be encouraged as part of the financial structure of new project proposals, and as part of this policy, had introduced a third loan modality, which it would like to see used in future projects. A copy of the revised loans policy was available on request from the Secretariat.

17. The Executive Director noted the need to find alternative sources of funding for projects to reduce the Organization's dependency on the CFC, which had limited resources. Funding from institutions such as regional development banks was an option which could be explored. The ICO had already held preliminary discussions with the Inter-American Development Bank, and would contact other organizations such as the African Development Bank, OPEC and bilateral agencies to explore funding for coffee development projects.

18. In discussions on this item, concern was expressed about the impact of the new funding requirements on African countries in particular, and the ICO was urged to encourage regional and local banks to work alongside African countries on projects. The Board noted the EC's interest in assisting where possible, such as through financing projects through the CFC. In the case of price risk management, it was suggested that as a number of countries worked with the World Bank, direct contact with the Bank could be the best way to facilitate contributions.

Pests and diseases

19. The Head of Operations said that in August 2007, in the light of concerns raised by Members during Council sessions about the proliferation of pests and diseases affecting coffee, the Executive Director had circulated document ED-2020/07, inviting Members to complete and return a questionnaire on coffee pests and diseases, namely Coffee Berry Borer, Coffee Wilt Disease – Tracheomyces, White Stem Borer and Coffee Leaf Rust. To date, some 14 responses had been received (Cameroon, Central African Republic, Colombia, Democratic Republic of Congo, Costa Rica, Ecuador, El Salvador, Ghana, Jamaica, Malawi,

Mexico, Panama, Tanzania and Zambia), however further responses were required to enable a full picture of the current situation. Members who had not yet done so were requested to complete and return the questionnaire to the ICO by **15 March 2008**, so that a more complete picture of the status of these pests and diseases could be obtained. A report would be circulated to the Board at its next meeting in May 2008.

Item 6.2: Projects under consideration by the ICO

20. The Head of Operations said that new and revised project proposals should be submitted to the ICO by 22 February 2008, for consideration by the Virtual Screening Committee (VSC) and subsequently the ICO Executive Board in May 2008.

21. The Board noted that in the case of the project entitled ‘International research and development services for the durable genetic control of two destructive diseases affecting Arabica coffee’, as some VSC Members had considered this proposal suitable for submission to the EC, the ICO had requested the EC to provide information on the formal procedures for submitting relevant coffee research proposals, and sought guidance from the EC representative on the correct person to contact. The EC representative offered to contact his colleagues in DG8, which dealt with assistance to developing countries. He noted that it might also be possible to mobilize resources through the Standing Committee, which was due to meet in early February, in the context of assistance under the terms of the EU Action Plan on Commodities, although this normally required producing countries to include relevant projects in their frameworks.

Item 7: Seminar on geographical indications

22. The Head of Operations introduced document WP-Board 1043/08 containing draft terms of reference for a seminar on geographical indications, scheduled to take place during the week of 19 to 23 May 2008. The proposal for the seminar had been approved by the Council as part of the ICO programme of activities for 2007/08 (document EB-3929 Rev. 1), with a budget of £6,000. He invited suggestions from Members on possible speakers or a Chairman for this event, which could be held on either the afternoon of Tuesday 20 or Thursday 22 May.

23. In discussions on this item the need for the Seminar to be for the purposes of information only was highlighted. The seminar should deal with matters objectively and the choice of speakers should be representative of the coffee chain. It was suggested that the Secretariat should contact the United Nations Conference on Trade and Development (UNCTAD), as it was involved in a related project in Cameroon and could provide useful input in the seminar. A number of representatives indicated their willingness to share their experience and propose speakers from their countries, including Colombia, Indonesia and

Switzerland. The Executive Director noted that all Members were invited to propose speakers, but it was likely that only four or five speakers could participate in view of the time constraints and limited budget.

24. A number of revisions to the draft terms of reference were proposed, and a revised version of the document was circulated as document WP-Board 1043/08 Rev. 2. The Board took note of this document and approved the terms of reference contained therein. The Board further noted that Members should send the Executive Director concrete proposals for speakers immediately after this meeting to enable the Secretariat to contact speakers in a timely manner.

**Item 8: Implementation of the
Coffee Quality-Improvement Programme**

Coffee Quality-Improvement Programme (CQP)

25. The Head of Operations introduced document EB-3941/08 containing a report on the CQP. Twenty-eight countries were now implementing Resolution 420. In the period covered by the report (coffee year 2006/07), the 28 exporting Members implementing the Resolution had exported 61 million bags of green coffee, of which over 92% (56 million bags) complied with the defects and moisture targets in the Resolution. The volume of coffee graded by LIFFE which failed to comply with the targets of Resolution 420 from October 2006 to September 2007 amounted to 1.27 million bags, a decrease of 14% and 32% compared to coffee years 2005/06 and 2004/05 respectively. In the case of coffee graded by ICE, nearly 92% of coffee had passed the gradings analysis from October 2006 – September 2007. As noted in the report, the Vietnamese Government would gradually introduce new measures to control the quality of coffee exports which were expected to have been fully implemented by 2010.

26. In discussions on this item, the point was made that quality was a key activity and progress in implementing the CQP was slow. Sixteen countries were not yet participating in the CQP and it would be useful to have more information about their reasons for this. It would also be useful to include the table with information about the performance of individual countries in future reports.

27. The Executive Director noted that the CQP was not a mandatory programme. Although only 28 countries were complying with Resolution 420, they accounted for 68% of world exports. This would rise to almost 90% of exports once Vietnam began to participate in the Programme. He highlighted the correlation between improved quality and higher coffee prices. The Board took note of this information and of the progress report on the CQP contained in EB-3941/08.

Harmonization of ICC Resolution 420 with ISO Green Coffee Defects Chart

28. The Head of Operations reported that the London International Financial Futures Exchange (LIFFE) had introduced a revised Robusta coffee futures contract and associated option contract with effect from 14 January 2008. The first futures delivery month and associated option expiry month for the revised Contract would be November 2008. The November 2008 and January 2009 Futures delivery months of the revised contract would be offered in parallel with the November 2008 and January 2009 months of the existing contract. The revised contract included a number of changes, including enhancements to the grading process to include measurement of defects and foreign matter by weight, and the inclusion of an olfactory test as part of the grading process. In the case of measurement of defects and foreign matter by weight, LIFFE had adopted a process whereby certain defects and foreign matter were extracted from a sample and measured by weight. The standards for assessing defects and foreign matter were based upon those laid out in the ISO document 10470 (Green Coffee Defect reference chart) and their application in ISO 4149 (Green coffee: olfactory and visual examination of foreign matter and defects). LIFFE had also included an olfactory test as part of the grading process, based upon ISO 4149, and a revised screen test as part of the Robusta coffee grading process. The revised contract specifications were available on the LIFFE website (www.nyseuronext.com/liffe). Finally he said that the representative of LIFFE had appreciated the ICO's contribution in providing information about the new standards and the different methods of calculating defects, which had played a part in its decision-making process. In the case of ICE, contacts between the representative of ICE and the ICO were continuing. The Board took note of this information.

Item 9: Promotion

29. The consultant introduced document WP-Board 1044/08, containing a progress report on the development of the ICO network to promote coffee consumption, and made a presentation, a copy of which was circulated at the meeting. He noted that the diagnosis and strategic planning stages had been completed and the network was being launched this month. Following a short initial period where participation would be by invitation only, from 15 February 2008 the Network would be open to all participants, and interested Members should visit the website for more information (www.coffeepromotionnetwork.com). P&A International Marketing would mediate the network for the first six to ten months, at no cost to the ICO, following which other mediators would be selected. The project would facilitate interaction with young people, and help to detect trends in the coffee sector. He hoped that all Members would participate and encourage the coffee companies in their countries to be involved. Members who did not wish to access the network directly could contact him and he would convey their suggestions to the network coordinators. The Board took note of this information.

30. In response to questions the consultant confirmed that the mediators would be instructed to monitor anti-competition postings. Participants would need to be accepted by the network to contribute and the mediator would check all postings before they went live. With regard to benchmarks, this would be determined by the number of participants after a specific time (as outlined in document WP-SGP 17/07 Add. 1). The point was made that this was a self-financing project, and if it did not generate a certain level of activity, Members would need to review the situation. In response to the suggestion that the website should be renamed, with a shorter name and including a reference to coffee, the consultant said that he would look into this.

31. The Executive Director said that the network provided both a forum for discussions on coffee matters and an opportunity for initiating projects. It was a new venture and would open up possibilities for new industry contacts such as with coffee shops. He expressed his appreciation to P&A International Marketing for developing this project.

32. The Executive Director said that he had had discussions with the Vietnamese authorities who had expressed their interest in promoting domestic consumption and had been interested in participating in the project on domestic consumption. As the CFC had confirmed that it could not fund the project, the coffee authorities of Vietnam would develop a programme to promote domestic consumption. The Board took note of this information.

Item 10: Phytopsanitary matters

33. The Head of Operations reported that the second session of the Codex Committee on Contaminants in Foods (CCCF) was scheduled for 31 March – 4 April 2008 in the Netherlands. It would consider a revised discussion paper on ochratoxin A (OTA) in coffee which included a recommendation that the CCCF should start new work for the development of a Codex Code of Practice for the Prevention and Reduction of OTA in Coffee. It also recommended that the Code should be developed on the basis of FAO Guidelines for the Prevention of Mould Formation in Coffee and that the need to set a maximum level for OTA in coffee should be assessed after the development of the Code of Practice. The ICO had observer status with Codex and had been invited to join this working group and provide technical input on relevant matters. In the case of the EC, a document on OTA was due to have been published in late 2007 but had been delayed. He understood that there would be no changes to the existing limits of 5 ppb and 10 ppb for roasted and soluble coffee respectively, and no limits on green coffee, but this would be kept under review.

34. With regard to acrylamide, the Head of Operations said that the Codex Committee would also consider a proposed draft code of practice for the reduction of acrylamide in food. An electronic working group led by the USA/UK was preparing this document. As with OTA, the ICO had been invited to join this group and provide technical input on relevant matters.

35. Concerning pesticides, he said that the EC had been consolidating and harmonizing Maximum Residue Levels (MRLs) of pesticides in or on food and feed of plant and animal origin. EC Commission Regulation 396/2005, amending Council Directive 91/414/EEC had been published in the Official Journal of the European Union of 16 March 2005. The legislation would apply to a number of commodities, including coffee, and MRLs needed to be established. The EU's work on MRLs on pesticides was expected to be ready in mid 2008 and he would keep Members informed about further developments. As previously noted, studies carried out had found very low levels of pesticides in coffee and the risks appeared to originate either from non-coffee bean matter in low-grade coffee or in chemicals used in other links in the chain such as transportation and warehouses.

36. The Board took note of this information.

Item 11: Cooperation with other organizations

37. The Executive Director said that in addition to cooperation with Codex Alimentarius reported under Item 10, he had attended the inaugural ceremony of the 47th General Assembly of the InterAfrican Coffee Organisation (IACO), held in conjunction with the 1st Forum for the Promotion of African Coffees from 19 – 23 November 2007 in Yaoundé, Cameroon. A mission to the Food and Agriculture Organization of the UN would take place in early 2008, to discuss a range of matters, including technical cooperation on projects, in the context of the Memorandum of Cooperation between the two organizations. The ICO would also be represented at the EAFCA conference in Kampala in February 2008. He noted that in May 2007, the Organization had participated in the Global Initiative for Commodities as part of the preparations for the UNCTAD XII Conference in Ghana in April 2008. The forthcoming Conference would include an important Round Table meeting on the changing face of commodities in the 21st century. Finally, the Executive Director said that the ICO would inform relevant international organizations about the main features of the ICA 2007 and plans for implementing it.

Item 12: Financial and administrative matters

Item 12.1: Financial situation

38. The Head of Finance and Administration introduced document WP-Board 1045/08 containing a report on the financial situation. The Board took note of this report and further noted the need for all Members to pay their contributions by 31 March 2008.

Item 12.2: Administrative Accounts of the Organization for the financial year 2006/07 and Report of the Auditors

39. Rule 62 of the Rules of the Organization provides that the Executive Director shall submit to the Council through the Executive Board the Accounts of the Organization and the Report of the Auditors thereon in accordance with the provisions of Article 27 of the Agreement. The Head of Finance and Administration introduced document EB-3940/07 Rev. 1 containing the Administrative Accounts of the Organization for the financial year 2006/07 and the Report of the Auditors. The Board took note of this information and decided to follow the practice of referring it to the Finance Committee for more detailed consideration. The Committee would report to the Council with its recommendation at its next Session in May 2008.

Item 12.3: Payment of arrears

40. The Head of Finance and Administration reported that Uganda was complying with the monthly payment schedule for the current year's contributions established under Resolution 429. In the case of quarterly payments of arrears, all payments up to September 2007 had been made, but three more recent related payments had not yet been received. In the case of the Democratic Republic of Congo, he said that while no instalments had been made in 2006/07, two payments on account had been received in the last month. The representative of this country had informed him that his Government would continue to make monthly payments of between 1,000 and 3,000 euros per month for the remainder of the coffee year, although this would not meet the payment schedule established under Resolution 430.

41. In the case of Nicaragua, the Executive Director said that this country had submitted a proposal to reschedule its arrears over a three year period in September 2007 (document WP-Board 1041/07). However, the proposed initial payment for the period 2002 – 2007 had not yet been received. In the case of Malawi, he had received a request to reduce the number of this country's votes and had advised the representative that there was no provision in the Agreement for this. He expressed his appreciation to the representatives of Uganda and the Democratic Republic of Congo for their efforts to comply with the provisions of Resolutions 429 and 430 respectively, but noted that the Council had already made an exceptional provision to restore their voting rights and countries were expected to comply with the payment schedules which had been established. The Board took note of this information. It further noted that payment of contributions was crucial for the Organization and requested all Members to pay their contributions and settle any arrears according to schedule.

Item 12.4: Other financial and administrative matters

42. The Head of Finance and Administration introduced document WP-Board 1042/07 containing proposals for the revision of salary scales and the basis for contributions to the Provident Fund for staff in the General Service category. Provision for the costs of these proposals amounted to £21,500 and could be found from within the Administrative Budget for the financial year 2007/08 (Item 1 – Personnel, in document EB-3937/07) approved by the Council in September 2007). He also introduced document WP-Board 1046/08, containing a proposal for the revision of the salary scale for staff in the Professional and higher categories, as applied by the IMO and based on recommendations made by the International Civil Service Commission. The overall effect of the revised scale, on a “no loss – no gain” formula, would give no increase in take-home pay and represented no additional cost to the Organization.

43. The Board took note of this information and decided to approve the proposals for the revision of salary scales and the basis for contributions to the Provident Fund for staff in the General Service category and the proposal for the salary scale for staff in the Professional and higher services category respectively contained in documents WP-Board 1042/07 and WP-Board 1046/08.

Item 13: Other business

Depositary for the ICA 2007

44. The Executive Director introduced document WP-Council 161/07 Rev. 1 containing a revised draft Resolution designating the ICO as the Depositary for the 2007 Agreement, Members were invited to consider this document, which would be discussed by the Council at its special session on 25 January 2008. In preliminary discussions on this item, it was suggested that wording should be included in paragraph (f) referring to the date of entry into force of the Agreement, and that the Resolution should include wording relating to Depositary information being available on the website. The Executive Director noted that as stated in document WP-Council 162/08, an area of the website had already been established for information about the Depositary and the ICA 2007.

Item 14: Future meetings

45. The Board noted that its next meeting would take place at the ICO headquarters in London at the time of the Session of the Council scheduled to take place during the period 19 – 23 May 2008.