



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ
ORGANISATION INTERNATIONALE DU CAFÉ

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**Report of the
Private Sector Consultative Board
on the meeting of 20 September 2010**

1. The Private Sector Consultative Board (PSCB), chaired by Mr Rodolfo Trampe of the Mexican Association of the Coffee Production Chain (AMECAFE), met for the 31st time on 20 September 2010 in London.

2. The Chairman extended the Board's congratulations to the AJCA which celebrated its 30th anniversary in August 2010, and to the NCA, which celebrates its 100th anniversary in March 2011. He also noted that this would be the last meeting attended by the Executive Director whom he thanked on behalf of the Board for his service and commitment to the Board during a critical time in its development.

Item 1: Adoption of the Agenda

3. The PSCB adopted the draft Agenda contained in document PSCB-121/10 Rev. 2.

Item 2: Report on the meeting of 1 March 2010

4. The PSCB approved the report of the meeting of 1 March 2010 contained in document PSCB 120/10.

Item 3: Coffee market situation

5. The Executive Director introduced the Letter from the Executive Director for August 2010. He reported that the market had exhibited a very different picture over the last three months in comparison to the previous five years. Price differentials between Arabicas and Robustas had widened further; this widening was in spite of a larger than anticipated crop in Brazil and the return to normal production levels in a number of other countries. Stocks in

producing and consuming countries had continued to decline, while the estimate of total production for the crop year 2010/11 remained the same at between 133 and 135 million bags.

6. Mr Henry C. Dunlop, Chairman of the Coffee Committee, ICE, made a presentation on coffee and the New York futures market. Coffee remained the most unique publicly traded commodity in the world. All other commodities were based on objective and quantifiable criteria, but coffee was the only commodity whose price was influenced heavily by a subjective criterion: taste. Coffee had met unique challenges over the past three years; the CQP had been one of the major successes of the ICO; consumers were now more knowledgeable than at any time in history; the only other comparable commodity was wine; and price differentials existed quite simply because consumers demanded particular types of coffee. Supply had not kept up with demand and the significant price differentials which had arisen were not a result of the non-functioning of the market; on the contrary, they showed that the market was working well. Quality and flavour were fundamental to the functioning of the market.

7. The delegate from the SCAE said that he agreed with many of the comments made. However, he felt that the primary function of the market was to supply a means of hedging: one could buy a potential hedge, but the price was distorted by funds, not fundamentals. Differentials were starting to narrow, but the "C" contract should not reflect supply and demand of the whole market, merely price differentials of Washed Arabicas. The delegate from the SCAA felt that one should differentiate between the coffee market and the free market. He also challenged the concept that the Exchange, and in particular the "C" contract, reflected the whole market: it did not track, for instance, two-year-old Washed Milds. He also agreed that the funds reflected human behaviour, not commodity fundamentals. The delegate from AEKI reported that exporters in Indonesia were finding it difficult to trade because of increased volatility: there should be greater transparency and traders needed to be able to use the market as an effective hedging mechanism. In discussion, other delegates commented that the exchange did not have any obligation to provide a hedging mechanism. However, roasters and traders might need to find such a mechanism and would like to discuss with the Exchange how this might be achieved.

8. Mr Dunlop thanked Members for their comments. He thought that it was not the primary responsibility of the Exchange to provide a mechanism for hedging and he felt that there was little point in focusing on the activities of funds: the current situation was a reflection of supply and demand. ICE was very interested in engaging in dialogue and exploring new avenues. He thought that, over time, the market would naturally converge with physicals: the current situation was anomalous, but it did occur at times.

9. Mr Peter Blogg, the representative of NYSE Euronext, made a presentation on the revised Robusta contract, one of whose most important features had been to double the

contract size. There had been considerable discussion about how to improve regulation and a regulatory review had been undertaken in 2009. The Exchange had agreed to introduce a Commitment of Traders Report which would introduce daily position reporting. A trial run of the Report would take place the following week and its format would be similar to the short form of the CFTC Report.

10. The delegate from the SCAE asked whether there was a risk that lowering the quality threshold sent a mixed message. Mr Blogg replied that they were always mindful of messages about quality; in order to provide a better hedge, the Exchange needed to reflect the physical market better and had also introduced the concept of a premium above futures prices.

11. The Chairman thanked the speakers for their presentations and the Board took note of the reports.

Item 4: World Coffee Conference

12. The Executive Director introduced document ICC-105-4 concerning the World Coffee Conference in Guatemala from 26 to 28 February which had as its central theme a sustainable coffee sector. He underlined the importance of the private sector in the work of the Conference and thanked the President, the Government of Guatemala and Anacafé for the excellent and efficient organization of the Conference. A full presentation would be given later to the Council, a DVD on the Conference proceedings would be circulated and would also be published on the ICO website.

13. The PSCB took note of this report.

Item 5: Coffee and health

14. The delegate from the ECF made a report on the HCP-CEP programme. Tangible benefits were flowing from the programme in terms of the perception of coffee by healthcare professionals. Denmark was the latest country to participate, joining the eight countries already working on the programme. The biggest challenge was to focus on scientific evidence relating to the benefits of drinking coffee: it was very important to scrutinize the language used to convey information; there was a continuous balancing act between the necessity to reflect the scientific evidence accurately and the need to deliver an easily comprehensible message.

15. He went on to report on the Positively Coffee programme which was now fully funded by ISIC. The programme had to operate in a changing environment in the light of the EU Health Claims legislation which had extremely strict requirements. The challenge was not dissimilar to that faced by the HCP-CEP programme, namely to strike a balance between

scientific accuracy and the need to convey comprehensible information. The Positively Coffee website had become increasingly redundant because of the stricter requirements and it was proposed that it be merged with CoSIC's website: a new website would be created and possibly a new brand identity would be given. It was likely that the collaboration between the ICO and ISIC would be revised, but would continue. The programme's status could be described as work-in-progress.

16. The delegate from ABIC reported that it was running a programme in Brazil which followed similar principles to those of HCP-CEP and Positively Coffee. ABIC had obtained sponsorship from roasters to provide coffee and milk in schools, particularly in poorer areas. It was noticeable that children's performance improved and became more focussed. Another delegate from ECF commented that many European associations had participated in the HCP-CEP programme. In Germany they had contacted a wide range of healthcare professionals with the aim of increasing consumption and the reception had been very positive.

17. The Board took note of these reports.

Item 6: Coffee Quality-Improvement Programme

18. The Head of Operations introduced document EB-3977/10 concerning the CQP: the number of countries implementing Resolution 420 was 28, accounting for just under 69% of world exports in the period October 2009 to June 2010. He introduced document EB-3976/10 concerning the gradings for Arabica and Robusta coffees for the period October 2009 to June 2010: over 88% of coffee in the former category passed the gradings analysis, while in the case of the latter, 24% out of a total of 124,000 graded in the same period had failed to comply with the target standards of Resolution 420.

19. The representative of the SCAA made a presentation on the Global Coffee Quality Research Initiative (GCQRI) which had been developed by the Norman Borlaug Institute for International Agriculture working with the SCAA, SCAE and specialty coffee companies. The aim of the GCQRI was to increase overall cup quality and volumes of quality coffee through research in producing countries by stimulating higher consumer interest and consumption.

20. The delegate from EAFCA welcomed and fully supported this programme and called for wider support. The delegate from the SCAE said this was an important initiative and the ICO should take an active role in the process which was a desirable research programme. He asked the PSCB to keep this item on its Agenda and the Secretariat to maintain a watching brief in order to facilitate the dissemination of information. The Executive Director agreed that the ICO should aim to play a role in this respect. It was also noted that it might be possible to use the wealth of information learnt from projects undertaken by the ICO, some of which might be highly relevant. It was sensible to encourage cross-fertilization.

21. Mr Ted Lingle of the Coffee Quality Institute made a presentation on adding value to Robusta coffee. The programme focussed on Robusta 'Fine' coffees and had developed a distinct sensory method for evaluating them. The CQI had held workshops in Kampala and Accra to teach and certify Robusta 'Fine' coffee cuppers, a subject which was explored in greater depth in document PSCB-123/10. Mr Lingle said his wish list would contain the following elements: another centre in West Africa with ICO support and EU or CFC funding; the collection of statistics on 'Fine Robustas' in order to encourage more producers to move into this sector; and the completion of the genetic mapping of Robusta coffee. He also reported on the possibility that climate change would push the production of Robusta higher up in the mountains, with the consequence that less land would be available for production.

22. The Executive Director thanked Mr Lingle for his presentation and said that the ICO would be happy to assist wherever it could. The delegate from CAC asked whether they had investigated options such as post-harvest washing and steam cleaning. The representatives of ABIC and EAFCA thanked the CQI for its work and noted the general improvement in quality, not just amongst Robustas, but in all types of coffee. Mr Lingle commented that many of the quality classifications dated from ICO standards of the 1960s and it might be appropriate to re-examine them.

23. The Board took note of these reports.

Item 7: Food safety aspects

24. The representative of the ECF reported that, in the case of acrylamide, the EU would stipulate signal levels rather than maximum limits; thus, every coffee would have a signal, or investigation level: if the investigation level for acrylamide were exceeded, a further stage of action would be triggered. This was not welcomed by the coffee industry. The problem remained how to reduce the level of acrylamide since there was as yet no known method.

25. In the case of furan, he reported that the monitoring programme would continue for the time being. The state of scientific knowledge was still at an early stage: it was extremely difficult to measure the level of furan in a cup of coffee; for example, it disappeared if a cup were left standing for 20 minutes. Furthermore, no standard form of measurement existed. Finally, he reported that there were no further developments on OTA.

26. The delegate from CAC said that regulators were working together increasingly. The Canadian authorities had conducted an acrylamide monitoring programme, but the food industry had taken issue with the testing methodology. This had led to a delay in announcing the results, but it was understood that they would be released in the next two to three months. The industry was worried that instant coffee was tested on an 'as sold' rather than on an 'as consumed' basis; they feared that the same methodology would be used for ground coffee. He noted that furan was starting to be of increasing interest in Canada. OTA had not been

raised with respect to coffee so far, but it had been an issue for other products, especially baby foods. They would like to see the testing carried out on a finished basis, as was the practice in the EU.

27. The PSCB took note of these reports.

Item 8: Preparations for the implementation of the ICA 2007

Item 8.1: Strategic documents

28. The Head of Operations reported that the Council would consider documents WP-Council 173/08 Rev. 5, the draft strategic action plan, and WP-Council 191/09 Rev. 1, the draft development strategy for coffee, in the course of the week. He also reported that the Council would consider draft Resolutions proposing the extension of the ICA 2001 in the light of progress on the ICA 2007.

Item 8.2: Consultative Forum on Coffee Sector Finance

29. The Head of Operations reported that an Expert Panel on Coffee Sector Finance would take place on 21 September, to which all members of the PSCB were invited. Document ICC-102-11 Rev. 2 contained revised draft terms of reference for the Forum and this would be considered by the Council later in the week.

30. The Board took note of these reports.

Item 9: Items under continuous review

International Coffee Genome Network

31. Ms Marcela Yepes of the ICGN made a presentation on an ICGN Concept Note entitled 'Sequencing the Coffee Genome' concerning the status and recent developments of the Network and asked the PSCB to support its work. A meeting would take place on Wednesday 22 September, to which members of the PSCB were invited, in order to discuss cooperation with the ICGN, see document ED-2094/10.

32. There were no other comments from members of the Board on other items under review.

33. The Board took note of this report.

Item 10: PSCB representatives and officeholders

34. The Chairman invited the PSCB to elect the Chairman and Vice-Chairman for 2010/11. In accordance with previously established practice, Mr Robert Nelson of the NCA, currently the Vice-Chairman of the PSCB, was elected as Chairman. The Chairman asked for nominations for Vice-Chairman to be submitted by the end of the week. It was subsequently decided that Mr Ricardo Villanueva of Anacafé should be elected as Vice-Chairman. The Chairman also noted that there were currently only seven consumer representatives on the Board. He invited Members to consult their Governments so that the Council could designate another representative for coffee year 2010/11.

35. The Board took note of this information.

Item 11: Any other Business

36. The delegate from AEKI reported that he had been approached the previous week by a representative from the ECF on the subject of the European Coffee Contract. He asked Members of exporting countries to contact him later in order to review the document and organize discussion. The delegate from the ECF agreed to be in touch with the delegate from AEKI after the document had been prepared.

37. The Board took note of this information.

Item 12: Future meetings

38. The PSCB noted it was likely that the next meeting would take place during the week of 28 to 31 March 2011 in Abidjan, Cote d'Ivoire, but that this would be confirmed by the Secretariat in due course.

List of acronyms used in this report:

ABIC	Brazilian Coffee Industry Association
AEKI	Association of Indonesian Coffee Exporters
AJCA	All Japan Coffee Association
AMECAFE	Mexican Association of the Coffee Production Chain
Anacafé	Guatemalan National Coffee Association
CAC	Coffee Association of Canada
CFC	Common Fund for Commodities
CoSIC	Coffee Science Information Centre
CQI	Coffee Quality Institute
CQP	Coffee Quality-Improvement Programme
CFTC	Commodity Futures Trading Commission
EAFCA	Eastern African Fine Coffees Association
ECF	European Coffee Federation
EU	European Union
GCQRI	Global Coffee Quality Research Initiative
HCP-CEP	Healthcare Professions – Coffee Education Programme
ICE	Inter-Continental Exchange
ICGN	International Coffee Genome Network
ICO	International Coffee Organization
ISIC	Institute for Scientific Information on Coffee
NCA	National Coffee Association of the USA
OTA	Ochratoxin A
NYSE Euronext	(Liffe) London International Financial Futures and Options Exchange
PSCB	Private Sector Consultative Board
SCAA	Specialty Coffee Association of America
SCAE	Speciality Coffee Association of Europe