

INTERNATIONAL COFFEE ORGANIZATION

ANNUAL REVIEW 2006/2007

MISSION

The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together 77 producing and consuming countries to tackle the challenges facing the world coffee sector through international cooperation. It makes a practical contribution to the world coffee economy and to the improvement of living standards in developing countries by:

- enabling government representatives to exchange views and coordinate coffee policies and priorities at regular high-level meetings;
- encouraging a sustainable world coffee economy;
- initiating coffee development projects to add value and improve marketing;
- increasing world coffee consumption through innovative market development activities;
- improving coffee quality through the Coffee Quality-Improvement Programme;
- working closely with the global coffee industry through a 16-strong Private Sector Consultative Board which tackles issues such as food safety;
- providing objective and comprehensive information on the world coffee market; and
- ensuring transparency in the coffee market through statistics.

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FOREWORD BY THE CHAIRMAN OF THE COUNCIL

When I hold a generous cup of fresh coffee in my hands, inhaling its fragrance and absorbing its warmth, it is difficult to believe that some years before I was not merely ignorant of, but indifferent to the vast world of coffee culture.

From indifference to enjoyment I then progressed to curiosity. The history behind the beverage is as rich as espresso itself, and the diversity of coffee thrills my mind as I taste it. The multitude of machines and trade secrets elevates it to a level of connoisseurship on a par with that of the wine industry. Lauded by musicians, poets, royalty, and the humblest of working men and women, coffee is a love affair not only for the individual, but for the masses throughout the ages. I am happy to have had the veil lifted at last, so I can now see, taste and enjoy all of what I had previously missed. And in discovering coffee, I discovered the International Coffee Organization (ICO).

The ICO originated from the need to regulate the international coffee market, in the framework of the 1962 United Nations Coffee Conference. Since 1963, it has been a vital centre of international cooperation for coffee, meeting the needs of producing and consuming countries, providing detailed statistical information and undertaking coffee development projects to address the priorities of the world coffee sector.

The most significant event of coffee year 2006/2007 was the approval of a new International Coffee Agreement (ICA). The ICA 2007 contains major innovations that will make it possible to further strengthen international cooperation on coffee. It is designed to enhance the ICO's role as a forum for intergovernmental consultations and increase the Organization's contributions to meaningful market information and market transparency. The new Agreement will also ensure that the ICO plays a unique role in developing innovative and effective capacity-building in the coffee sector, including promoting sustainable approaches to coffee production and enhancing the value of production for small-scale farmers in developing countries.

The ICA 2007 establishes a number of new advisory bodies, in addition to a forum to promote the development and dissemination of innovations and best practices in order to enable coffee producers to better manage financial aspects of the inherent volatility and risks associated with competitive and evolving markets. Other notable changes include: expanding the Organization's work in providing relevant statistical and market information and strengthening efforts to develop, review and implement capacity-building projects. The Council also resolved to extend the 2001 Agreement for one year from 1 October 2007 in order to allow sufficient time for countries to complete the procedures required for the entry into force of a new Agreement.

Other significant events of the coffee year can be summarized as follows.

On 1 January 2007, the ICO welcomed Bulgaria and Romania as its 76th and 77th Members, following the accession of both countries to the EC. In April, two new projects sponsored by the ICO were approved by the Common Fund for Commodities (CFC): ‘Increase in added value by developing the potential of Gourmet Robusta coffee in Gabon and Togo’ and ‘Enhancing the potential of Gourmet coffee production in Central American countries’. In May, the ICO made a significant contribution to the international conference ‘Global Initiative on Commodities: Building on Shared Interests’, organized by the CFC, the African, Caribbean and Pacific States Secretariat, the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme. Finally, the Netherlands deposited its instrument of accession to the 2001 Agreement with the United Nations Treaty Section on 25 May 2007.

I would like to express my personal satisfaction with the achievements of the ICO, not only the conclusion of the new Agreement but also its important new role in the international coffee market, encouraging greater stability and reasonable living standards for those involved with coffee by securing adequate returns to producers, while ensuring that care is given to maintaining quality rather than the quantity of coffee produced – this tallies also with the ICO’s Coffee Quality-Improvement Programme, which establishes basic quality standards for coffee.

Special thanks go to the Executive Director, Mr Néstor Osorio, for his unfailing assistance, and to Mr Saint-Cyr Djikalou, of Côte d’Ivoire, for his excellent negotiating capacities and, particularly, for chairing the Working Group on the Future of the Agreement. I would also like to express my deep gratitude to all Members of the Organization and to the staff of the ICO for their continuing support and cooperation.

Finally, I would like to send my best wishes to Mr G.V. Krishna Rau, Chairman of the Coffee Board of India, as Chairman of the Council for the next coffee year. I am sure that he will find a very positive and friendly environment and meet with every success.

And now I can go back to sipping my cup of coffee.

Mauro Orefice

Chairman of the International Coffee Council 2006/2007

Ministry for Foreign Trade, Italy

OVERVIEW BY THE EXECUTIVE DIRECTOR

Coffee year 2006/07 was marked by the successful negotiation of a new International Coffee Agreement which was adopted during the September session of the International Coffee Council. After a year of hard work, the Working Group on the Future of the Agreement put together a well-balanced document, which places a strong emphasis on achieving a sustainable coffee sector.

The 2007 Agreement is an important instrument for development cooperation and will provide the legal framework for core activities undertaken by the Organization in the future. A third of the ICO's 45 exporting Members are least-developed countries (with low incomes and high economic vulnerability), and the 25 million small coffee farmers and their families who produce 90% of the world's coffee are particularly affected by fluctuations in market prices and imbalances in supply and demand. The Preamble of the Agreement specifically acknowledges the contribution of a sustainable coffee sector to the achievement of international development goals, in particular reducing poverty.

The decision-making process of the Organization has been streamlined by the elimination of the Executive Board, with the consequent strengthening of the Council. Three new advisory bodies will assist the Council: a Promotion and Market Development Committee, with responsibility for overseeing activities to increase global consumption, improve coffee quality and develop markets for coffee; a Projects Committee, providing guidance on the development and funding of projects; and a Finance and Administration Committee. Of special relevance is the creation of the Consultative Forum on Coffee Sector Finance, responding to the need for information on finance and risk management. Another important innovation is the lengthening of the term of the Agreement to ten years, thereby providing a stable framework for long-term planning of the activities of the Organization.

In keeping with the emphasis on the need for a sustainable coffee sector, Article 36 has been updated to include a reference to the 2002 World Summit on Sustainable Development. The collection of statistical data will be strengthened to include niche markets and emerging trends as well as data on different geographic areas and quality, while the scope of studies and reports has also been expanded to include aspects such as sustainability and health.

During coffee year 2006/07, the market continued to consolidate its recovery from the depressed levels that prevailed in the crisis years that lasted from 1999 to 2004. The improvement in prices was generalized across all types of coffee, with increases of 16.5% for Colombian Milds, 16.6% for Other Milds, 17.7% for Brazilian Naturals and 20.3%

for Robustas. Results for the first part of 2007/08 indicate that this firmness can be expected to continue. Although current prices are now more in line with historical levels and the remuneration of coffee-growers has become more compatible with their costs, these gains have been significantly eroded by factors exogenous to the coffee market. The ascent of oil prices to record levels has had a direct impact on the costs of farmers' inputs. In addition, the continued weakness of the US dollar, which is used as a reference in the international coffee trade, has meant that prices of coffee in many local currencies did not fully reflect the improvement noted above. Meanwhile, coffee consumption continues to be buoyant and has underpinned the strength of the market.

The question of quality remains crucial for the long-term health of the coffee sector. Our Coffee Quality-Improvement Programme, now in its fifth year, continues to attract new participants and covers more than two-thirds of total exports. A greater commitment to the improvement of quality will bring benefits to producers in terms of added value to their product and to consumers in terms of a better beverage. The ICO will continue its efforts to broaden participation in this important Programme.

In the area of projects, two new initiatives have been launched and a further proposal will be implemented in 2007/08, all of which are supported by the Common Fund for Commodities. These projects are concrete examples of the ICO's commitment to provide practical support to Members, especially least developed countries. In this regard, innovations in the 2007 Agreement, such as the establishment of a Projects Committee and the Consultative Forum on Coffee Sector Finance, will enable us to enhance assistance to Members in facing the challenges of today's globalized market.

Finally, I would like to congratulate Mr Saint-Cyr Djikalou, Chairman of the Working Group on the Future of the Agreement, for his skilful conduct of the demanding negotiations; and Mr Mauro Orefice of Italy and Ambassador José López Camposeco of Guatemala for their capable performances as Chairmen of the Council and Executive Board, respectively. My thanks also go to Mr Christian Rasch Topke and Dr Ernesto Illy for their important contributions as Chairmen of the PSCB and the Promotion Committee. On a personal note, I should like to express my appreciation for the confidence placed in me by Members in renewing my term of office for five years until 2012. I am sure that during this period the ICO will continue to play a leading role in the future of this fascinating beverage called coffee.

Néstor Osorio

Executive Director

International Coffee Organization

WORLD COFFEE MARKET

Prices

The recovery in prices recorded in coffee year 2005/06 continued throughout coffee year 2006/07. The annual average of the ICO composite indicator price for coffee year 2006/07 was 104.24 US cents per lb compared to 91.44 cents per lb in coffee year 2005/06, representing an increase of 14%. This average price level is the highest recorded since coffee year 1997/98 (Table 1). Robustas recorded the sharpest increase, with the average for coffee year 2006/07 at 82.73 US cents per lb, representing an increase of 34.7% compared to the 2005/06 level, attaining the highest level since coffee year 1995/96.

Table 1: ICO indicator and futures market prices (coffee year averages)

Coffee year	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
1995/96	106.39	130.23	121.66	123.92	91.10	112.45	83.01
1996/97	126.94	188.05	177.38	153.55	76.50	151.95	71.75
1997/98	115.23	155.61	148.72	137.15	81.72	136.38	76.00
1998/99	88.53	115.61	104.85	88.97	72.21	105.32	68.58
1999/00	72.86	112.66	96.88	86.61	48.83	103.81	46.63
2000/01	47.84	77.05	65.81	57.53	29.88	66.24	27.27
2001/02	45.46	63.74	59.21	43.72	26.85	52.36	21.83
2002/03	52.17	65.89	64.89	48.94	37.23	65.89	34.56
2003/04	57.77	74.41	73.51	62.07	36.37	73.24	33.16
2004/05	85.30	112.29	111.22	98.22	46.05	108.03	42.72
2005/06	91.44	113.04	110.84	100.86	61.45	108.17	54.61
2006/07	104.24	122.08	120.08	108.35	82.73	118.70	74.71
% change							
2006/07 & 2005/06	14.00	8.00	8.34	7.43	34.63	9.73	36.81

In US cents per lb

* Average of 2nd and 3rd positions

Market fundamentals

The behaviour of market fundamentals in coffee year 2006/07 contributed to the recovery in prices. Growth in world consumption offset the increases in production and the flow of exports during the coffee year.

Production

In 2006/07 world production reached over 125 million bags, an increase of 14% compared to crop year 2005/06, when output was 110 million bags (Table 2). The relatively high level of prices over recent years and good weather conditions contributed to this rise. The share of Robustas in total production was down from 38.5% in 2005/06 to 36.7% in 2006/07 as a consequence of the increase in Arabica production, whose share in the total went up from 61.5% to 63.3%.

In **Africa**, coffee production experienced a slight recovery in crop year 2006/07; despite the difficulties that continue to affect producers in a number of countries, an increase of 7.8% was recorded. Africa's share in world production for crop year 2006/07 was 11.5%. Ethiopia continues to be the region's leading producing country (4.6 million bags) followed by Uganda (2.6 million bags) and Côte d'Ivoire (2.5 million bags).

In **Asia/Oceania**, the production level rose to 32 million bags compared to 29.2 million bags in the previous year. Increased output in Vietnam (35.8%) and India (4%) offset production falls in Indonesia (23.2%) and Papua New Guinea (36.4%). The region's share in world production fell from 26.6% in 2005/06 to 25.6% in 2006/07.

In **Mexico/Central America**, production was slightly down, at 17.1 million bags in 2006/07, compared to 17.4 million bags in the previous crop year. Production fell in a number of countries in the region, most notably in Costa Rica, El Salvador and Nicaragua. This fall in production was partially off-set by an increase in Guatemala and Honduras. The region's share in world production was 13.6% in 2006/07 compared to 15.8% in 2005/06.

In **South America**, Brazil, where Arabica production is subject to a biennial cycle, recorded an increase of 29% in its total production for crop year 2006/07, which was up from 32.9 million bags in 2005/06 to 42.5 million bags. Production in Colombia was 12.8 million bags in 2006/07, compared to 12.3 million bags in 2005/06. The region's share in world production was 49.3%, compared to 45.3% in 2005/06.

Table 2: Total production by group

Crop year commencing	2003	2004	2005	2006	% change 2006 & 2005
TOTAL	103 592	115 330	109 769	125 171	14.03
Colombian Milds	12 250	13 345	13 416	14 004	4.38
Other Milds	25 002	25 113	25 519	26 987	5.75
Brazilian Naturals	24 901	37 249	28 615	38 244	33.65
Robustas	41 440	39 622	42 219	45 937	8.81
Arabicas	62 153	75 708	67 550	79 234	17.30
Robustas	41 440	39 622	42 219	45 937	8.81
TOTAL	100.00	100.00	100.00	100.00	
Colombian Milds	11.83	11.57	12.22	11.19	
Other Milds	24.13	21.77	23.25	21.56	
Brazilian Naturals	24.04	32.30	26.07	30.55	
Robustas	40.00	34.36	38.46	36.70	
Arabicas	60.00	65.64	61.54	63.30	
Robustas	40.00	34.36	38.46	36.70	

In thousand bags

Stocks

The most significant feature of the stock situation in exporting countries is that the Brazilian National Supply Agency (CONAB), under the Ministry of Agriculture, carried out a survey of stocks held in the private sector in order to estimate the volume of opening stocks for crop year 2007/08. The results of this survey enabled an upward revision of earlier figures. Opening stocks in producing countries for crop year 2006/07 are now estimated at around 29 million bags. At the end of September 2007, stocks in importing countries were estimated to be 22.6 million bags.

Exports

Exports for coffee year 2006/07 totalled 96.7 million bags, representing an increase of 9.6% in relation to the total of 88.2 million bags in 2005/06. The increase in exports was most marked in the case of Robustas (14.3%). Arabica exports rose by 7.3% (Table 3). With the recovery in prices, the total value of exports in coffee year 2006/07 is estimated at US\$12.3 billion compared to US\$10.1 billion in coffee year 2005/06 (Table 4).

Table 3: Total exports

Coffee years	2005/06	2006/07	% change
TOTAL	88.19	96.68	9.62
Colombian Milds	11.83	12.39	4.76
Other Milds	20.51	21.24	3.55
Brazilian Naturals	26.56	29.58	11.36
Robustas	29.29	33.46	14.26
Arabicas	58.91	63.21	7.31
Robustas	29.29	33.46	14.26

In million bags

Table 4: Volume and value of exports

Coffee years	2003	2004	2005	2006 1/
Colombian Milds				
- Volume	11.43	12.19	11.83	12.39
- Value	1.13	1.72	1.79	2.00
Other Milds				
- Volume	20.48	19.34	20.51	21.24
- Value	1.91	2.53	2.87	3.19
Brazilian Naturals				
- Volume	25.90	27.85	26.56	29.58
- Value	1.93	3.02	3.27	3.99
Robustas				
- Volume	30.94	30.36	29.29	33.46
- Value	1.46	1.71	2.17	3.10
Total				
- Volume	88.75	89.74	88.19	96.68
- Value	6.44	8.98	10.10	12.28

Volume in million bags - value in billion US\$

1/ Estimated

World consumption was very buoyant in 2006 thanks largely to increased consumption in emerging markets in Asia and Eastern Europe. It is estimated at 120.4 million bags for 2006 compared to 117.6 million bags in 2005. Domestic consumption in exporting countries is estimated at 31.3 million bags and consumption in importing countries at 89.1 million bags.

Consumption

During coffee year 2006/07, prices remained firm largely as a result of the relative strength of consumption. Nevertheless, the weakness of the US dollar continues to affect the real income of coffee producers. For example, major producing countries that recorded significant revaluation against the dollar in 2007 include Colombia (11.6%), Brazil (8.9%), India (8%) and Uganda (6.3%). Current price levels could be maintained in coffee year 2007/08 if coffee growers emphasize investment in quality improvement rather than production increases.

Conclusions and prospects

INTERNATIONAL COFFEE AGREEMENT 2007

The seventh International Coffee Agreement (ICA), the ICA 2007, was agreed by the 77 Members of the International Coffee Council on 28 September 2007 and formally adopted through Resolution 431.

The new Agreement is the culmination of two years of intensive high-level discussions and contains significant new provisions for international cooperation. It will strengthen the ICO's role as a forum for intergovernmental consultations, facilitate international trade through increased transparency and access to relevant information, and promote a sustainable coffee economy for the benefit of all stakeholders. As was the case with the 1994 and 2001 Agreements, it has no market-regulatory clauses.

Negotiations for the 2007 Agreement were launched in September 2005, when Members reviewed options for the future of the 2001 Agreement, which was due to expire in September 2007. The Council decided that the Executive Director should prepare a report on progress on attaining the objectives of the Agreement, and that Members should submit proposals on the future of the Agreement. Over 30 proposals were received from Members, and the Chairman of the Private Sector Consultative Board (PSCB) presented that entity's recommendations to the Council in September 2006. Other contributions included ideas arising from the 2nd World Coffee Conference, held in Brazil in 2005, proposals by the Statistics Committee, and suggestions from civil society.

Negotiations for the 2007 Agreement

In September 2006, the Council established a Working Group to examine proposals for the Agreement and submit its recommendations in May 2007. The Working Group was composed of all Members and was chaired by Mr Saint-Cyr Djikalou, of Côte d'Ivoire, with Mr Max Schnellmann, of Switzerland, as the Vice-Chairman. The Secretary-General of the InterAfrican Coffee Organization and the Chairmen of the PSCB and Promotion Committee participated as observers.

The Group met on four occasions: in January, March, May and September 2007 at the ICO headquarters in London. It adopted procedures for the organization of work, which included the use of electronic communication in between meetings to advance progress. Negotiations were also facilitated by the establishment of an informal Drafting Group, which worked on texts to reflect views expressed during the meetings.

The Group initiated its work in January 2007 by reviewing five documents structured around the themes of objectives, membership and votes, efficiency of deliberations and decision-making, structural and administrative matters and new and expanded areas of work. Sufficient progress was made to enable the first draft of a new Agreement to be published in March 2007. By May 2007, the Group had made substantial progress and had reached consensus on a number of important Articles, however additional time was needed to fulfil its mandate. The Council extended the remit of the Group until September 2007 and, following further intensive discussions and negotiations, adopted the definitive text of the 2007 Agreement on 28 September 2007.

In total, around 90 documents relating to the new Agreement were published and discussed during 20 days of meetings over two years, and over 90% of the Articles of the 2001 Agreement were modified.

New features

The new overall objective of the 2007 Agreement is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the sector.

Other new objectives include facilitating information on financial tools and services, and encouraging Members to develop and implement strategies to enhance the capacity of local communities and small-scale farmers, and develop appropriate food safety procedures in the coffee sector. The Agreement also recognizes the contribution of a sustainable coffee sector to the achievement of internationally agreed development goals, including the Millennium Development Goals, particularly with respect to poverty eradication.

Institutional changes include the elimination of the Executive Board, and the creation of three new advisory committees to assist the Council in its work: a Projects Committee, responsible for the preparation of projects and fund-raising, a Promotion and Market Development Committee, which will oversee activities including information campaigns, research, capacity-building and studies related to coffee production and consumption, and a Finance and Administration Committee, dealing with matters such as the Administrative Budget. The Council will continue to be advised by the Private Sector Consultative Board and the World Coffee Conference.

An important innovation is the creation of a Consultative Forum on Coffee Sector Finance, responding to the need for increased access to information on topics related to finance and risk management in the coffee sector, with particular emphasis on the needs of small- and medium-scale producers. The Forum will include representatives from a wide range of areas, including Members, intergovernmental organizations, financial institutions, the private sector, non-governmental organizations (NGOs) and others with relevant expertise.

Other areas that have been the subject of significant revision are that of statistics, where Article 32 specifically addresses the issue of statistical information for a wide range of fields, eventually incorporating differentiated coffees, and that of studies, surveys and reports, addressed in Article 34, enlarging the scope of action of the Organization to include sustainability aspects of the coffee sector, links between coffee and health, and the analysis of the coffee value chain amongst other aspects.

The European Community has been included as a Contracting Party, representing the interests of its 27 member States, and there is a new provision for all decisions to be taken by consensus, thus reflecting existing practice, where all decisions since the ICA 1994 (apart from the election of the Executive Board) have been taken in this manner. If consensus cannot be reached, a decision can always be taken through a simplified voting procedure requiring 70% of the votes of each category of Member.

The 2007 Agreement will have a duration of ten years, with the possibility of extension for a further eight years. The Preamble and objectives are shown on pages 12 and 13.

Next steps

The Council will hold a special session on 25 January 2008 to decide on the Depositary of the 2007 Agreement. The Executive Director has recommended that the most practical solution is to designate the ICO itself as the Depositary, an option provided for by the 1969 Vienna Convention on the Law of Treaties.

The 2007 Agreement will then open for signature from 1 February to 31 August 2008 and enter into force once signatory Governments with two-thirds of the votes of exporting and importing Members, respectively, have deposited their instruments of ratification, acceptance, approval or notifications of provisional application. The 2001 Agreement has been extended for a period of one year from 1 October 2007 to allow sufficient time for countries to complete the necessary legal procedures required for the entry into force of the new Agreement.

**International
Coffee Agreement 2007**

Preamble

The Governments Party to this Agreement,

Recognizing the exceptional importance of coffee to the economies of many countries which are largely dependent upon this commodity for their export earnings and for the achievement of their social and economic development goals;

Recognizing the importance of the coffee sector to the livelihoods of millions of people, particularly in developing countries, and bearing in mind that in many of these countries production is on small-scale family farms;

Recognizing the contribution of a sustainable coffee sector to the achievement of internationally agreed development goals, including the Millennium Development Goals (MDGs), in particular with respect to poverty eradication;

Recognizing the need to foster the sustainable development of the coffee sector, leading to enhanced employment and income, and better living standards and working conditions in Member countries;

Considering that close international cooperation on coffee matters, including international trade, can foster an economically diversified global coffee sector, the economic and social development of producing countries, the development of coffee production and consumption, and improved relations between coffee exporting and importing countries;

Considering that collaboration between Members, international organizations, the private sector and all other stakeholders can contribute to the development of the coffee sector;

Recognizing that increased access to coffee-related information and market-based risk management strategies can help avoid imbalances in the production and consumption of coffee that may give rise to pronounced market volatility which can be harmful to both producers and consumers; and

Noting the advantages derived from the international cooperation which resulted from the operation of the International Coffee Agreements 1962, 1968, 1976, 1983, 1994 and 2001,

Have agreed as follows:

Article 1 – Objectives

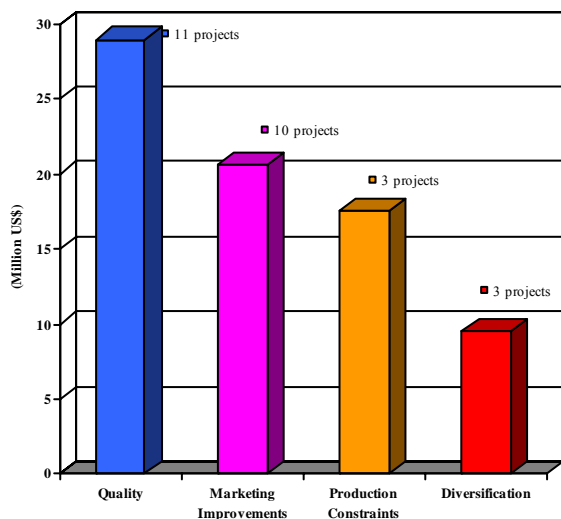
The objective of this Agreement is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the sector, by:

- (1) promoting international cooperation on coffee matters;
- (2) providing a forum for consultations on coffee matters among governments, and with the private sector;
- (3) encouraging Members to develop a sustainable coffee sector in economic, social and environmental terms;
- (4) providing a forum for consultations seeking understanding with regard to the structural conditions in international markets and long-term trends in production and consumption that balance supply and demand, and result in prices fair both to consumers and to producers;
- (5) facilitating the expansion and transparency of international trade in all types and forms of coffee, and promoting the elimination of trade barriers;
- (6) collecting, disseminating and publishing economic, technical and scientific information, statistics and studies, as well as the results of research and development in coffee matters;
- (7) promoting the development of consumption and markets for all types and forms of coffee, including in coffee producing countries;
- (8) developing, evaluating and seeking finance for projects that benefit Members and the world coffee economy;
- (9) promoting coffee quality with a view to enhancing consumer satisfaction and benefits to producers;
- (10) encouraging Members to develop appropriate food safety procedures in the coffee sector;
- (11) promoting training and information programmes designed to assist the transfer to Members of technology relevant to coffee;
- (12) encouraging Members to develop and implement strategies to enhance the capacity of local communities and small-scale farmers to benefit from coffee production, which can contribute to poverty alleviation; and
- (13) facilitating the availability of information on financial tools and services that can assist coffee producers, including access to credit and approaches to managing risk.

Chapter I – Objectives

COFFEE DEVELOPMENT PROJECTS

Share of Portfolio (US\$76.6 million)
by areas for action



“The project has brought considerable benefits to the community and we believe that it will help us with our food supplies by complementing our incomes...”

Roque Bartolo Mundo,
Comunidad Tesoro, Mexico

“The main changes I have noted are that we are already participating with greater responsibility, and have a better understanding of the projects. We have realized that it is not merely a question of registering for a project but of working hard and this is a mental rather than an economic advance”.

Macario Álvaro Arvizu Mejía,
Comunidad Almanza, Mexico



Signature of Project Implementation Agreement, Guatemala City

As at 30 September 2007, the ICO has sponsored and secured financing for 27 coffee development projects with a total value of around US\$76.6 million, some US\$40 million of which has been financed by the Common Fund for Commodities (CFC), with the balance provided by bilateral and multilateral donor institutions, in the form of co-financing, and by the beneficiary countries, in the form of counterpart contributions. The value of the projects portfolio increased by US\$4.3 million in 2006/07 with the approval by the CFC of two new projects.

In total, 15 projects have been concluded, 11 are being implemented and a further project will be launched shortly. Of the projects being implemented during 2006/07, one was concluded in May and two were launched in September. A brief outline of each of these three projects is given below.

The graph on the left shows how the current portfolio is distributed by the main strategic areas for action and the number of projects funded by area. Diversification is the latest area of action, adopted with a view to finding solutions to the recent coffee crisis. It has already offered concrete opportunities to fight poverty in rural areas where coffee was the main or sole income-generating activity.

Coffee farmers and cooperatives participating in the project ‘Diversification of production in marginal areas in the State of Veracruz, Mexico’ have confirmed the benefits of the project (see left).

Enhancing the potential of gourmet coffee production in Central American countries (06/09/2007 – ongoing)

This project was launched on 6 September 2007 in Guatemala City, Guatemala. It will enable the participating countries to implement a strategy to develop sustainable gourmet-quality coffee accompanied by tourism strategies. The project is an example of the practical application of the recommendations of the CFC/EU/ICO funded study on ‘Worldwide comparative analysis of coffee growing areas’, which identified eco-tourism as an option for successful diversification. The project aims to encourage added value and rural income growth by promoting rural tourism through setting up a ‘coffee route’ in Central America and mapping sites of interest.

The total cost of the project is US\$1,874,146, of which the CFC is contributing US\$617,560 as a grant. The Government of Italy will contribute US\$1,256,586 in co-financing and the Istituto Agronomico per l’Oltremare (IAO) will act as the Project Executing Agency (PEA).

Reconversion of small coffee farms into self-sustainable agricultural family units (15/09/2007 – ongoing)

This project was launched on 15 September 2007 in Manta, Ecuador. Its objective is to alleviate the poverty of coffee-growing families through the introduction of new profitable agricultural activities that will promote higher income levels, greater food security and the preservation of natural resources. The project seeks to reconvert 1,200 coffee farms into self-sustaining agricultural units through diversification of their production systems. The project will also promote processing of primary commodities and the development of co-operative marketing channels for the local market. The results of the project will be disseminated to Cuba, Guatemala and Honduras. The total cost of the project is US\$3,198,635, which will be invested over a period of four years. Of this, the CFC is contributing US\$1,117,640 as a grant. In addition, the Government of Ecuador will contribute US\$858,165 in co-financing, and the remaining sum of US\$1,222,830 will be provided as counterpart contributions by the National Coffee Council (COFENAC) of Ecuador, which together with the National Coffee Exporters Association (ANECAFE) will also act as the PEA.



Coffee farmer with CFC Managing Director, Ecuador

Integrated white stem borer management in smallholder coffee farms in India, Malawi and Zimbabwe (20/10/01 – 30/06/07)

The main objective of this project, which concluded in May 2007, was to expand research and development of Integrated Pest Management (IPM) measures to combat the white stem borer and reduce the use of chemical pesticides. In all participating countries (India, Malawi and Zimbabwe), project activities were completed successfully during the six-month extension period and a workshop took place in India in June 2007 to disseminate the results of the project. The project has made an important contribution to improving capacity-building in the participating countries as noted by direct beneficiaries of the project. However, the control of the stem borer is a continuous process and farmers and scientists should continue their work to find solutions to reduce its impact on coffee production. In India, for instance, the practice of two tiers of shade and the development of pheromones, as well as regular tracing, seem to be suitable for the integrated management of the white stem borer. In Africa, biological control through the development of natural enemies is preferred due to the high cost of chemical methods. Above all, good agricultural practices are key to successful control of the white stem borer. The project has contributed to the development of Farm Field Schools, which are welcomed by farmers as they have filled the gap left after the withdrawal of government support following the liberalization of the commodity sector.

In addition to the development of stem borer control methods, the project has facilitated south-south cooperation among scientists, as Indian project staff visited Malawi and Zimbabwe to share experience and exchange knowledge on specific areas.



Final project workshop, Mysore, India

PORTFOLIO PROJECTS	Total cost	CFC	Co-fin.	CC	STATUS OF PROJECT IMPLEMENTATION [*]		
					(in thousand US\$)		
PROJECTS CONCLUDED (15)	21,724	10,352	6,713	4,659			
Development of gourmet coffee potential (06/96 - 05/00)	1,412	1,018	110	284	Concluded		
Integrated management of the coffee berry borer (10/96 - 05/02)	5,467	2,968	850	1,649	Concluded		
Study on coffee marketing systems and trading policies in selected coffee-producing countries (10/96 - 04/00)	289	244	0	45	Concluded		
Characteristics of the demand for Robusta coffee in Europe (10/99 - 05/01)	29	29	0	0	Concluded		
Enhancement of coffee quality through prevention of mould formation (10/98 - 09/05)	5,593	2,526	2,067	1,000	Concluded		
Coffee processing study – Rwanda (10/99 - 05/00)	35	30	0	5	Concluded		
Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua (10/00 - 06/05)	5,330	910	3,468	952	Concluded		
Workshop on structured short- and medium-term finance to small-scale farmers in Africa (01/01 - 04/01)	30	30	0	0	Concluded		
Study of the potential for commodity exchanges and other forms of market places in COMESA countries (07/01 - 06/03)	60	60	0	0	Concluded		
Coffee price risk management in East Africa (07/01 - 11/01)	60	60	0	0	Concluded		
Workshop on coffee quality through prevention of mould formation in Ecuador (07/01 - 09/01)	65	60	0	5	Concluded		
Regional workshop on the coffee crisis in Central America (07/03 - 09/03)	100	80	20	0	Concluded		
Sustainable coffee development in Eastern Africa (12/04 - 07/05)	30	15	15	0	Concluded		
Worldwide comparative analysis of coffee growing areas (07/03 - 09/06)	120	60	60	0	Concluded		
Integrated white stem borer management in smallholder coffee farms in India, Malawi and Zimbabwe (10/01 - 06/07)	3,104	2,262	123	719	Just concluded		
PROJECTS ONGOING (11)	52,414	27,538	14,729	10,148			
Coffee market development and trade promotion in Eastern and Southern Africa (07/97 - ongoing)	9,101	5,012	2,540	1,549	Ongoing		
Improvement of coffee production in Africa by the control of coffee wilt disease - tracheomyces (04/98 - extension 12/06)	8,952	3,517	4,349	1,086	Ongoing		
Pilot rehabilitation of the coffee sectors in Honduras and Nicaragua (04/00 - ongoing)	6,837	4,220	505	2,112	Ongoing		
Coffee price risk management in Eastern and Southern Africa (04/01 - ongoing)	2,529	1,829	0	700	Ongoing		
Short and medium term finance for small-scale coffee farmers in Kenya (10/01 - ongoing)	3,045	1,445	1,000	600	Ongoing		
Pilot rehabilitation of neglected coffee plantations into small family production units in Angola (10/00 - ongoing)	8,530	4,750	2,980	800	Ongoing		
Robusta quality and marketing improvement by optimal use of coffee terroirs (10/02 - ongoing)	943	448	0	495	Ongoing		
Improving coffee quality in East and Central Africa through enhanced processing practices (04/04 - ongoing)	2,937	2,029	122	786	Ongoing		
Diversification of production in marginal areas in the State of Veracruz (04/05 - ongoing)	4,467	2,552	1,118	797	Ongoing		
Reconversion of small coffee farms into self-sustainable agricultural family units (10/05 - ongoing)	3,199	1,118	858	1,223		Just started	
Enhancing the potential of gourmet coffee production in Central American countries (04/07 - ongoing)	1,874	618	1,257	0		Just approved & started	
PROJECTS PREPARING TO START IMPLEMENTATION (1)	2,469	1,842	0	626			
Increase in added value by developing the potential of Gourmet Robusta coffee in Togo and Gabon (04/07 – to be started)	2,469	1,842	0	626		Just approved	
PORTFOLIO TOTAL	76,607	39,732	21,442	15,433			

* The starting point for portfolio projects is the date of approval by the CFC Executive Board.

CC = Counterpart contribution CFC CC = Consultative Committee of the CFC

PIPELINE PROJECTS	Total Cost	CFC	Co-fin.	CC	STATUS OF PROJECT CONSIDERATION*		
					2000/01 - 2004/05	2005/06	2006/07
	(in thousand US\$)						
UNDER CONSIDERATION BY THE CFC (11)	50,224	32,917	5,462	11,843			
Enhancing use of coffee germplasm - an African perspective (05/01)	10,930	8,566	0	2,363			Reformulation
Optimization of the harvesting, processing and marketing of Cameroonian coffee (09/01)	7,318	4,197	926	2,195			Reformulation
Establishment of pilot farms of organic Robusta coffee in OAMCAF Member countries (09/01)	1,800	863	468	469			Reformulation
Improvement and diversification of coffee production of smallholders in Central America (09/02)	7,858	3,790	4,068	0			Reformulation
Access to finance for the development of diversification crops in coffee producing areas in Burundi and Côte d'Ivoire (05/03)	3,007	2,478	0	528			CFC CC
Increasing the resilience of coffee production to leaf rust and other diseases in India and four African countries (05/06)	4,014	2,919	0	1,096			CFC CC
Development of domestic coffee markets (09/02)	5,994	2,995	0	2,998			VSC - comments / CFC rejected
Use of coffee by-products and alternative uses for low-grade coffee (09/03)	150	120	0	30			CFC PAC
Building capacity for coffee certification and verification in Eastern Africa (05/07)	2,869	2,869	0	0			Newly revised by VSC
Competitive coffee enterprises programme (05/07)	6,000	4,000	0	2,000			Newly revised by VSC
Revitalizing productivity, quality and trade in coffee from Africa (09/07)	284	120	0	164			Newly rev. by VSC
TO BE CONSIDERED BY OTHER DONORS (4)	7,641	4,607	927	1,664			
Cost-benefit analysis of sustainability practices in the coffee sector. A programme for building management capacity in producing countries (approved in 05/06)	3,462	2,000	927	535			CFC PAC - Rev
Coffee network: strengthening the capacities of small coffee producers in the Dominican Republic (approved in 05/07)	1,064	621	0	0			Newly rev. by VSC
Renovation of CATIE's international coffee collection (approved in 09/07)	419	419	0	0			Newly rev. by VSC
International research and development services for the durable genetic control of two destructive diseases affecting Arabica coffee (approved in 09/07)	2,696	1,567	0	1,129			Newly rev. by VSC
UNDER CONSIDERATION BY THE ICO (3)	6,924	5,774	0	1,150			
Enhancing income of smallholder farmers' groups in the coffee producing belt of Nigeria (04/05 – being revised)	5,822	4,822	0	1,000			VSC
Development of an innovative grower owned coffee marketing system based on coffee produced in an economically viable and environmentally sustainable manner (04/06 – being revised)	982	832	0	150			Newly revised by VSC
Coffee Berry Borer – the need for a review of the status and knowledge of a serious coffee pest (09/07 – being revised)	120	120	0	0			Newly rev. by VSC
PIPELINE TOTAL	64,789	43,298	6,389	14,657			

* The starting point for projects under consideration by the CFC and other donors is the ICO Council approval date, and the submission date in the case of projects under consideration by the ICO
CC = Counterpart contribution CFC CC = Consultative Committee of the CFC CFC PAC = Project Appraisal Committee of the CFC VSC = Virtual Screening Committee

Pipeline

A further 18 project proposals are currently in the pipeline and funding amounting to almost US\$65 million is being sought. Details of the status of each project are given in the table on page 17, where they are classified into projects under consideration by the CFC, by other donors and by the ICO.

With regard to project proposals considered by the ICO in 2006/07, nine new proposals and a reformulated proposal were evaluated by the Virtual Screening Committee (VSC).

The International Coffee Council approved seven new proposals and recommended that two should be further revised. In terms of funding, only three of the seven approved proposals are suitable for submission to the CFC. Alternative sources of funding need to be sought for the remaining four, as the beneficiary countries are either not members of the CFC or the objectives of the proposals (although technically sound) are not in line with CFC priorities.

The CFC Consultative Committee (CC) considered five coffee project proposals submitted by the ICO during the past coffee year. The CC approved two of the five project proposals, namely ‘Enhancing the potential of gourmet coffee production in Central American countries’ and ‘Increase in added value by developing the potential of Gourmet Robusta coffee in Togo and Gabon’, and recommended two other proposals for approval by the CFC Executive Board. The CC did not consider the proposal ‘Development of domestic coffee markets’ to be eligible for CFC funding (see also page 22).

The way forward

In terms of procedures, the 2007 Agreement will emphasize the important role of project activities in the structure of the Organization when it enters into force, including the establishment of a new Projects Committee (see below) to advise the Council on the development and funding of these initiatives.

Article 28 - Development and funding of projects

- (1) Members and the Executive Director may submit project proposals which contribute to the achievement of the objectives of this Agreement and one or more of the priority areas for work identified in the strategic action plan approved by the Council pursuant to Article 9.
 - (2) The Council shall establish procedures and mechanisms for submitting, appraising, approving, prioritizing and funding projects, as well as for their implementation, monitoring and evaluation, and wide dissemination of results.
 - (3) At each session of the Council the Executive Director shall report on the status of all projects approved by the Council, including those awaiting financing, under implementation, or completed since the previous Council session.
 - (4) A Committee on Projects shall be established. The Council shall determine its composition and mandate.
-

The VSC held its second physical meeting in September 2007 to discuss items related to procedures and financing. Its recommendations included:

- (i) reviewing the screening checklist to ensure that proposals approved by the ICO had identified sources of funding; and
- (ii) considering the terms of reference and role of the VSC in the light of the decision to establish a Projects Committee within the framework of the new Agreement.

For further information on projects, visit the ICO website page www.ico.org/what_we_do.asp.

SUSTAINABILITY

Articles 36 and 37 of the 2007 Agreement specifically recognize the contribution of a sustainable coffee sector to the achievement of internationally agreed development goals, in particular with respect to poverty eradication. The new Agreement will strengthen the existing activities of the Organization in this area, particularly those that provide direct support to coffee producing countries, in order to enhance production conditions and improve living standards for coffee farmers.

It is important to highlight that the overall aim of the ICO Development Strategy for Coffee is to promote a sustainable coffee economy, giving due importance to the economic, environmental and social aspects of sustainability. Within this context, all coffee projects supported by the Organization are intended to be relevant to this aim, since they are designed to be implemented to make a practical contribution to sustainable development and poverty reduction.

Coffee development activities sponsored by the ICO are demand-driven and designed to have a sustainable impact, particularly in terms of generating learning and knowledge that help primary stakeholders to continue project activities after their conclusion. An example of this is the project 'Development of gourmet coffee potential' which demonstrated that, with a small investment, the livelihoods of coffee farmers can be improved, and the involvement of country, private sector and civil society representatives can lead to successful assumption of responsibility by stakeholders, thereby making the project activity sustainable over time. It has generated several ongoing activities, such as the Coffee Guide website (www.thecoffeeguide.org, available in English, French and Spanish), which includes an updated summary of the findings of the project (see Chapter 2: Niche markets). Moreover, in connection with the Millennium Development Goal to 'Promote gender equality and empower women', the Coffee Guide team is currently looking into a possible programme aimed at women in the coffee sector and may include an additional chapter in the Guide to

promote increased opportunities for women in this field. Likewise, the Cup of Excellence (www.cupofexcellence.org) was generated from an internet auction that formed part of the project, and several other auctions have subsequently been held as part of this programme, which has become well-known in coffee circles. This is a good example of the successful continuation of project activities by the private sector, as well as of the concrete benefits derived from coffee projects by small farmers in remote areas who gain an increased awareness of the importance of quality.

Concerning the need to strengthen coffee institutions in the interests of a sustainable and competitive trading economy, an important development was the establishment of the Consultative Forum on Coffee Sector Finance in the new Agreement (see below), which will build on existing ICO activities in this area.

Article 31 - The Consultative Forum on Coffee Sector Finance

- (1) The Council shall convene, at appropriate intervals and in cooperation with other relevant organizations, a Consultative Forum on Coffee Sector Finance (hereinafter referred to as the Forum) to facilitate consultations on topics related to finance and risk management in the coffee sector, with a particular emphasis on the needs of small and medium-scale producers and local communities in coffee producing areas.
- (2) The Forum shall include representatives of Members, intergovernmental organizations, financial institutions, the private sector, non-governmental organizations, interested non-member countries and others with relevant expertise. Unless the Council decides otherwise, the Forum shall be self-financing.
- (3) The Council shall establish rules of procedure for the functioning of the Forum, the designation of the Chairman and the wide dissemination of its results, using where appropriate mechanisms established in accordance with the provisions of Article 34. The Chairman shall report to the Council on the results of the Forum.

On the subject of strengthening the capacity of stakeholders to compete in an increasingly globalized market-place, the Organization continues to inform Member countries, the private sector and civil society representatives about strategic activities promoted by the ICO as an effective way to deepen understanding. Examples of initiatives being undertaken by private sector and civil society which originated from or have been further developed into coffee projects include:

- The ICO sponsored project ‘Worldwide comparative analysis of coffee growing areas’, funded by the CFC and the European Community and implemented in ten coffee producing countries, generated a tool to assess costs and profitability by examining the distribution of value through the coffee marketing chain. This tool was subsequently adopted by the International Institute for
-

Sustainable Development (IISD) which developed a ‘Cost-benefit analysis of sustainability practices in the coffee sector (COSA)’. During 2006/07, the testing phase for the COSA was completed in five countries. When concluded, the results will be made available to the ICO.

- Since the round-tables on ‘Organic coffee’ and ‘Equitable trading and coffee’ organized by the Organization, various initiatives on coffee certification have been developed, including a project to promote sustainable coffee development in Eastern Africa, submitted by the Eastern African Fine Coffees Association (EAFCA). The proposal was approved by the ICO in September 2007 and funding is being sought for its implementation.

COOPERATION WITH OTHER AGENCIES

Cooperation with specialized coffee agencies and other international organizations continued to be important during coffee year 2006/07, enabling the ICO to benefit from the experience and expertise of relevant bodies.

The Organization continued to strengthen collaboration with the UNCTAD by actively participating in the international conference ‘Global Initiative on Commodities: Building on shared interests’, where the Executive Director made a presentation on behalf of International Commodity Bodies (ICBs). The Conference took place in Brasilia, Brazil, from 7 to 11 May 2007, and reviewed policy measures and actions intended to address problem areas. The report of the Conference highlighted the need for institution-building at all levels. In particular, it concluded that ICBs should be strengthened in their role of providing expertise and assistance to specific commodity sectors in commodity-dependent developing countries.

To date, 15 international institutions including the World Bank, the Food and Agriculture Organization of the United Nations (FAO) and the International Trade Centre/UNCTAD/WTO (ITC) have been involved in coordinating the implementation of ICO projects. Local institutions involved during the year include COFENAC, Ecuador, as PEA for the project ‘Reconversion of small coffee farms into self-sustainable agricultural family units’, launched in September 2007 (see page 15).

In order to assist certain Member countries that lack the technical expertise to prepare sound project proposals, the Organization continues to seek technical assistance from specialized international development agencies, such as the FAO and the ITC, and to strengthen existing collaboration with the United Nations Environment Programme (UNEP) on issues related to the environment.

The Organization has also initiated discussions with the African Development Bank, with a view to securing alternative sources of funding or co-financing for projects as appropriate.



“The project contributed not only to the quality of Ecuadorian coffee but also to the on-going monitoring of the coffee quality in terms of OTA and other mycotoxins.”
COFENAC

Finally, the ICO has continued to cooperate with the Codex Alimentarius, a joint FAO/WHO body dealing with food standards and guidelines. In May 2007 a representative from this agency made a presentation to Members on Codex work related to the food safety of coffee, including pesticide residues and contaminants such as ochratoxin A (OTA) and acrylamide. The ICO also contributed to a Codex discussion paper on OTA in coffee and recommended that Codex develop a proposed code of conduct on OTA in cooperation with the FAO, taking into account guidelines to avoid mould formation generated from the ICO/CFC/FAO project ‘Enhancement of coffee quality through prevention of mould formation’. This project has made an important contribution to improving quality in producing countries, as noted by COFENAC, the coffee authority in Ecuador (see left).

PROMOTING CONSUMPTION

ICO network to promote coffee consumption



The promotion of coffee consumption continues to be a key element of the ICO’s work and Members approved two new proposals aimed at developing opportunities in this area in 2006/07.

In January 2007, Members endorsed a Brazilian proposal to develop an ICO coffee promotion network, with a total cost of US\$114,500, funded by the ICO Promotion Fund. The consultants, P&A International Marketing and Radiumsystems, initiated work on the network in June 2007, following the establishment of milestones and markers to enable Members to assess the progress of the project.

The network involves the establishment of a collaborative community on the Internet where participants will be able to interact and develop ways of promoting coffee consumption, making use of the latest tools made possible by Internet 2.0. It will include resources such as videos, articles, case studies of promotion programmes and links to relevant sites. Participants will be able to get up-to-date news, upload studies, and participate in three discussion communities: producing countries, emerging markets and traditional markets. Key issues for each of the discussion communities have been identified and a domain for the network has been registered as www.coffeepromotionnetwork.com. The network will be mediated by expert mediators, who will undertake a special training programme. The strategic planning for the project has been completed and the network will be launched in 2007/08 on a trial basis.

Domestic consumption

In May 2007, the Council endorsed a proposal for a pilot project to develop domestic coffee markets in India, Indonesia and Mexico for submission to the Common Fund for Commodities (CFC). The proposal was aimed at creating a reliable additional market for growers and preparing the local industry to export value-added products. Both the Executive Director and ICO Members emphasized the importance of this project for the future of the coffee sector as it would increase global consumption, reduce the impact of volatility in prices on producers, add value and increase standards of living. The proposal was considered by the CFC Consultative Committee in July 2007 but rejected (see page 18).

The Step-by-Step Guide to Promote Coffee Consumption provides valuable practical guidelines for promoting coffee consumption, and continues to be available for downloading free of charge in English, French and Spanish from the ICO website. The Guide provided the basis for the methodology for the pilot project to develop domestic coffee markets (see above) and is currently being used in a number of countries, some of which have initiated specific promotion programmes.

Step-by-Step Guide to Promote Coffee Consumption

PRIVATE SECTOR COOPERATION

The Private Sector Consultative Board (PSCB) met three times during the year to discuss a wide range of coffee matters. Regular reviews were made of food safety issues, including the examination of such components within coffee as OTA, acrylamide and furan. In each case the Board has kept a watching brief on legislative developments globally, and on the latest scientific analytical methods in order to keep the coffee community informed about developments. It also re-examined the question of the maximum levels of pesticides permitted by importing countries.

The PSCB continued its debate on the future of the ICA 2001, having submitted its recommendations to the Council following an extraordinary meeting in September 2006. It noted that the introduction of the PSCB was seen as a highly positive element of the 2001 Agreement and that its role would remain substantially unchanged in the new Agreement.

The PSCB has continued its active support of the Positively Coffee Programme, which was set up under the auspices of the PSCB and is funded by the Institute for Scientific Information on Coffee (ISIC) and the ICO's Promotion Fund. It supports the Health Care Professions – Coffee Education Programme, which is also funded by ISIC and the relevant national coffee associations. Both programmes are designed to ensure that scientifically sound information is made available in the public domain, with a particular focus on the coffee associations which are members of the PSCB. Both initiatives are examined in greater detail on pages 24 to 27.

External bodies which made presentations during the year included the International Organization for Standardization (ISO), the International Coffee Genome Network (ICGN), the Coffee Rust Research Centre and the Common Code for the Coffee Community (the 4Cs).

POSITIVELY COFFEE PROGRAMME

The Positively Coffee Programme translates sound scientific information on the positive aspects of coffee consumption into easy-to-read articles. The information is made available to the coffee sectors in all producing and consuming countries in the form of ready-to-use materials in all four ICO languages which may be included in brochures, newsletters, websites or media briefings, as appropriate. The Positively Coffee Programme ensures a steady flow of consistent and scientifically vetted information drawn from studies published in peer reviewed journals. This has created a library of information on a variety of topics for the general public and ICO Members. It is now funded jointly by the Institute for Scientific Information on Coffee (ISIC) and ICO producing Members.

Positively Coffee website

The Positively Coffee website, www.positivelycoffee.org, is the major tool for the dissemination of all materials. It has been fully operational in the four ICO languages since 2006, with the number of views to the site having doubled over the last 12 months. The site continues to be listed among the top ten search engines for coffee, and the web address is now included as an active link on over 100 websites, including coffee companies, and research institutions.

Newsletters



Two further issues of the Positively Coffee Newsletter have been produced. While the English edition continues to be published and distributed at conferences and seminars around the world, the French, Portuguese and Spanish versions are also available in electronic format on the website. The Newsletters are among the most popular pages visited on the website, and many coffee sector organizations are now distributing the latest issues electronically via their own networks or adding the newsletter link onto their websites.

A sign-up facility, advising site visitors when new issues of the Newsletter are available, has generated an excellent response. Over 1,500 individuals from 90 countries have registered to receive this alert, mainly from the coffee sector, which confirms the value of these materials to those for whom this programme was originally intended. In addition, there has been considerable interest from the media, academic establishments and individual consumers.

New topics

(i) Coffee and Hydration

The widely held belief that drinks containing caffeine promote dehydration is simply not true. The caffeine in coffee has a mild diuretic effect, increasing the frequency of urination but not the amount of fluid passed. For many years, health and exercise experts thought that coffee and other caffeinated beverages promoted dehydration and did not count as a source of fluid in the diet. We now know that this is not true and that there is no scientific evidence to support these views. Caffeine is no more a diuretic than water, and a moderate intake of coffee and other caffeinated drinks does not lead to dehydration, but does count towards daily fluid intake.

ii) Coffee and Mental Performance

“Drinking coffee helps with the functioning of the brain. It helps increase alertness, attention and our ability to concentrate. It also helps us be less distracted by unwanted stimuli in our environment. Coffee also reduces the time we take to react to various stimuli. The greatest effects are seen in the morning when the need for a stimulus to get us going is greatest. Drinking coffee at this time helps increase our level of vigilance, alertness and well-being and puts us in a good mood for the start of the day”.

This is an extract taken from an interview with Dr Astrid Nehlig in April 2007.

Dr Astrid Nehlig is a research director at the French Medical Research Institute, INSERM, in Strasbourg. She has authored or co-authored over 250 articles, books and book chapters and is a regular speaker at international meetings. Her important research work was recognized in 2002 with an award from the American Epilepsy Society. Dr Nehlig also acts as an expert for numerous scientific journals and international societies. The full interview can be listened to or downloaded from the Positively Coffee website under ‘Coffee and Mental Performance’.

A colourful freestanding banner was designed to promote resources available from Positively Coffee. In early 2007, French, Spanish and Portuguese versions of the banner were prepared, and the artwork for all four language versions was made available on CD-Rom, allowing associations and their member companies interested in using the banner during their events to print their own permanent banners.

If you would like to obtain a copy of this CD-Rom, please contact positivelycoffee@ico.org.

Representatives of the coffee sector will regularly be called upon to present an overview on coffee and health. To assist in preparing such presentations, and ensure adherence to the current scientific consensus, short sets of ready-to-use slides are being prepared on each topic and will be available in all four languages. Each set will summarize in layman’s language the key findings on each topic as well as include highlights of research results.

Positively Coffee continues to prepare articles and other materials for the coffee trade media, and has participated in coffee sector conferences, exhibitions and other national communication activities to help promote coffee consumption. During the past year, events in the Czech Republic, France, India, Norway, and Switzerland have included presentations on coffee and health.

Exhibition banner stand

Topic slides

Other activities

HEALTHCARE PROFESSIONS – COFFEE EDUCATION PROGRAMME (HCP-CEP)

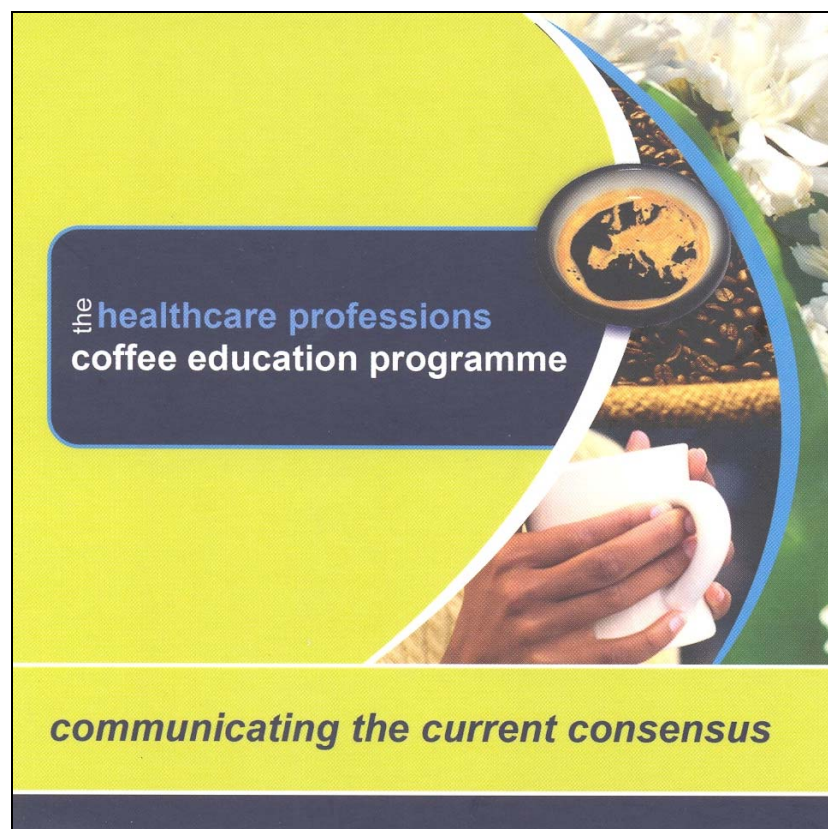
Market research data concerning coffee and health regularly highlight negative views that in turn limit consumption. These views persist because audience understanding is based on outdated scientific literature and lack of awareness of current scientific research findings.

So what has been done?

Recognising that such unwarranted health concerns limit coffee consumption, and that healthcare professionals are a key source of information for consumers, it is clearly important for these professionals to be better informed of the current scientific findings on the health effects of coffee consumption. This has been the basis of the HCP-CEP which has been running successfully since 2004 in six countries: Finland, France, Italy, the Netherlands, the Russian Federation and the United Kingdom.

The initial three year programmes were run by the coffee associations in those countries and facilities were established at the ICO to coordinate the project. The project was funded jointly by ISIC and the national coffee associations in the participating countries.

At the end of the three year period in December 2006, a comprehensive report, *'Communicating the current consensus'*, was prepared including detailed case studies from each country, the impressive results achieved and some key learning outcomes.



Finland

In 2003, only 26% of the doctors and nurses interviewed felt that they received enough scientific information about coffee. By 2006, this had risen to 47%, and 54% of the respondents felt that it had changed their opinion on coffee.

France

The booklet about coffee and health had a highly positive impact on the perceptions of medical students. After reading the booklet, negative impressions fell from 58% to 7% and positive impressions increased from 37% to 88%.

Italy

When doctors were asked about the effects on a healthy adult of consuming 3-4 cups of coffee daily, the number citing positive effects increased from 36% in 2004 to 55% in 2006. When asked about specific beneficial roles of coffee, those highlighting antioxidants increased from 14% to 60%, aiding digestion from 33% to 66%, and those identifying the beneficial role of coffee in stimulating the metabolism increased from 50% to 73%.

The Netherlands

During the 3 years the percentage of dietitians agreeing with the statement “Coffee is good for you” increased from 5% to 22%, and those agreeing with the statement “Coffee is bad for you” dropped from 14% to 4%.

Russian Federation

Scientific and medical experts gave 30 talks and lectures which were attended by over 8,000 doctors. The readership of two booklets on ‘Coffee and Health’, including the Internet version, exceeded 20,000 medical professionals. Positive coverage in the media grew from 58% to 93% during this period.

United Kingdom

The percentage of doctors interviewed who advised a reduction in coffee intake decreased from 53% to 47%. This change was reflected in the opinions of dietitians, nurses and midwives, where changes were respectively 73% to 48%; 89% to 63%; and 90% to 51%.

A more detailed study of this report would be of interest to any national coffee sector facing a situation where coffee and health issues are restricting the growth of coffee consumption. Those planning to address this issue with a targeted communications programme to medical and healthcare professions should contact positivelycoffee@ico.org for more information.

Highlights from the report ‘Communicating the current consensus’

Future project development

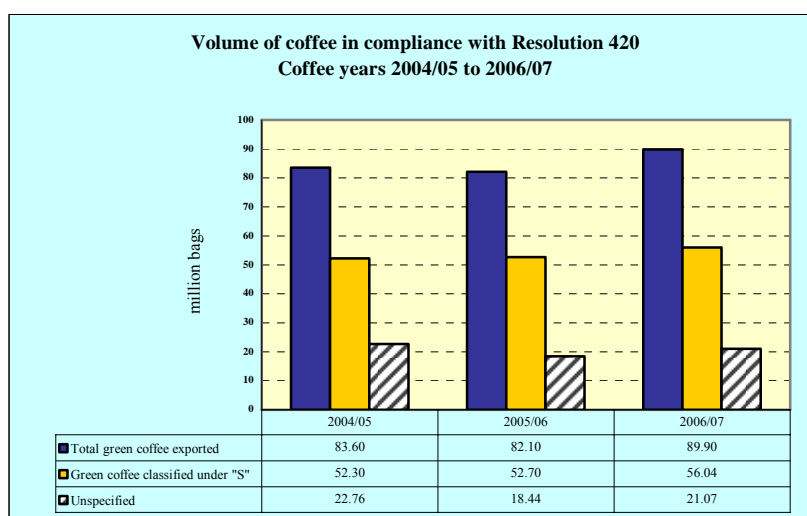
Having studied the results from the initial project, ISIC Board members confirmed that they wish to continue the joint funding of and participation in this project. Five of the six participating countries have continued to the second stage of the project and several additional countries, including Germany, Portugal and Spain are developing a first-stage programme in their markets.

COFFEE QUALITY-IMPROVEMENT PROGRAMME

The Coffee Quality-Improvement Programme (CQP) was launched in October 2002 under Resolution 407. The latter was subsequently superseded by Resolution 420 which took effect in June 2004. It is important to highlight that the CQP is a voluntary programme that does not impose any restrictions on the coffee trade. Nevertheless, it encourages participating exporting Members to indicate, on the Certificates of Origin issued to cover their green coffee shipments, whether the coffee fulfils certain basic quality standards with respect to defects and moisture content. Compliance with these standards assists substantially in ensuring that coffee is safeguarded from contamination by mycotoxins.

In coffee year 2006/07, the number of exporting Members availing themselves of the opportunity to indicate the quality of their coffee shipments on Certificates of Origin rose to 28, in comparison with 24 in 2005/06. Of the 90 million bags of green coffee exported during 2006/07, some 61 million bags (over 67%) were exported by the countries applying the Resolution, of which 57 million complied with the parameters of the CQP. Green Arabica and Robusta coffee exports in full compliance with the defects and moisture targets established by the Resolution respectively comprised 88% and 15% of total shipments of these types of coffee.

The figures indicate that the situation of green Robusta remains far less impressive in terms of compliance with the target quality standards. Vietnam, the largest Robusta exporter, has yet to comply with the terms of the Resolution and is also the source of the majority of the coffee failing the gradings classification carried out by the London International Financial Futures Exchange (LIFFE). Nevertheless, the latest information received indicates that the Vietnamese authorities intend to implement new measures to improve quality, one of which is the creation of a national coffee exchange centre to implement quality control measures which would also promote compliance with World Trade Organization (WTO) regulations.



The CQP is a valuable marketing tool for exporting Members to assure coffee importers that the beans they purchase meet certain basic quality standards. This not only makes the product more attractive to retailers and consumers but also plays a part in avoiding certain contaminants.

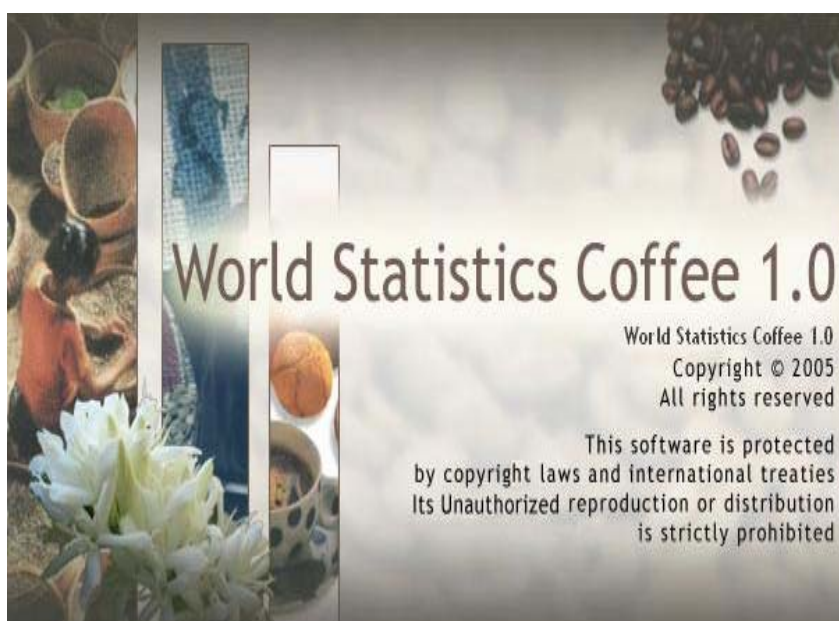
The Organization will continue to issue regular reports on the CQP and Members are encouraged to share their experiences in implementing it in order to eliminate any practical problems, and to continue to develop it as an important instrument in promoting sustainability of consumption by guaranteeing basic quality to consumers. The Programme also assists in improving the value of shipments through better prices, and contributes towards a greater balance between supply and demand by removing substandard coffee from the market.

Above all, the CQP provides a frame of reference for quality. It has led to a greater awareness of the value of ensuring basic quality in coffee exports which is being increasingly reflected in national policies and marketing programmes, and is bringing benefits to consumers in the form of a higher quality cup of coffee.

**Benefits for both
consumers and producers**

STATISTICS

The Organization's unique statistical databases are recognized by coffee market experts and coffee authorities worldwide as one of its main assets. A new statistical system has now been implemented and has been fully operational since July 2007. It integrates all the statistical databases of the ICO, synchronizing common variables in the supply-demand analysis, with seven modules: exports, imports, re-exports, prices, production, Certificates of Origin and votes. The new system can be further developed to expand the range of statistical information by including data such as differentiated coffees and niche markets, in the light of the 2007 Agreement.



During coffee year 2006/07 the Statistics Committee held two meetings. The main topics discussed were:

- Compliance with the provision of statistical data: on average, exporting Members achieved 90% satisfactory or full compliance with the statistical rules, whereas importing Members achieved 98%.
- Technical assistance: preliminary consultations have been initiated with the authorities in countries fully compliant with their statistical obligations in order to set up regional workshops aiming at capacity-building and sharing experience with countries where compliance with the Rules on Statistics is less satisfactory.
- Inventories and stocks of green coffee: the volumes of inventories and stocks held at major European ports, compiled by the European Coffee Federation, have now been incorporated in the relevant series held by the Organization.
- Statistics on organic and niche coffee exports: documents have been produced to track the development of trade in organic coffee and efforts will be made to expand this information to include other niche markets, where possible.
- Preparations and concentrates: as recommended by the Committee, the Organization's series on imports and re-exports of soluble coffee have been adjusted to reflect the fact that the coffee content in preparations and concentrates is only 10% of the total declared in the data received.
- Exports to exporting countries: given the increasing volume of coffee exported to exporting countries, this trade is being monitored more closely. Regular reports have been submitted to the Committee on this topic, and the Organization will continue to request exporting Members to provide import data, as appropriate.

Share of the markets in each group of coffee and their weightings in the calculation of the ICO composite indicator price from 1 October 2007

Group	Market %		
	New York	Germany	France
CM	44	56	
OM	42	58	
BN	23	77	
R	18		82

The calculation of the ICO composite indicator price is weighted as follows:

Colombian Milds (CM):	14%
Other Milds (OM):	20%
Brazilian Naturals (BN):	31%
Robustas (R):	35%

In September 2007, on the recommendation of the Statistics Committee, the Council approved the new weightings and market shares used to calculate group and composite prices indicators. The new shares of the markets in each group of coffee and their weightings in the calculation of the ICO composite indicator prices came into effect on 1 October 2007.

The importance of the ICO's work in promoting market transparency and the need for timely and accurate statistics have been widely recognized by Members, the Statistics Committee and other participants in the coffee sector, together with the need for the ICO to continue to prioritize and strengthen the provision of data relating to trade while continuing to cover other subjects of interest.

STUDIES

During coffee year 2006/07 the Organization published two reports on the effects of tariffs on the coffee trade (document EB-3924/07 and its revision). These studies provide an update on the situation of tariff measures in both importing and exporting countries and an analysis of the possible implications on the coffee trade. They indicate that, despite the reduction in tariffs in the context of multilateral, regional or bilateral arrangements, coffee consumption in some importing countries shows signs of stagnation. With the progress made in the context of trade liberalization, special tariff concessions granted by importing countries for imports from specific developing countries are becoming less important. Nevertheless, until free trade is fully established, countries that do not benefit from trade preferences granted by developed countries will continue to be subject to unequal treatment, which creates an obstacle to the development of the coffee market (see Table 5).

**Effects of tariffs
on the coffee trade**

Table 5: Tariffs in importing Members

Importing Members	Origin	Green, decaf. (0901.12.00)	Roasted, non decaf. (0901.21.00)	Roasted, decaf. (0901.22.00)	Extracts (instant) (2101.11.11 & 2101.11.19)
European Union	Brazil	8.30	7.50	9.00	9.00
	Cuba	4.80	2.60	3.10	3.10
	India	4.80	2.60	3.10	3.10
	Indonesia	4.80	2.60	3.10	3.10
	Mexico	4.80	2.60	3.10	3.10
	Paraguay	4.80	2.60	3.10	3.10
	Philippines	4.80	2.60	3.10	3.10
	Thailand	4.80	2.60	3.10	9.00
	Timor-Leste	4.80	2.60	3.10	3.10
	Vietnam	4.80	2.60	3.10	3.10
	ACP countries	0.00	0.00	0.00	0.00
Japan	Brazil	0.00	12.00	12.00	12.00
	Mexico	0.00	12.00	12.00	12.00
	Others	0.00	10.00	10.00	0.00
Norway	Brazil	0.00	0.43	0.43	0.15
	Others	0.00	0.00	0.00	0.00
Switzerland	Brazil	53 Fr/100kg	63 Fr/100kg	63 Fr/100kg	70 Fr/100kg
	Others	53 Fr/100kg	63 Fr/100kg	63 Fr/100kg	15.4 Fr/100kg
USA	All exporting countries	0.00	0.00	0.00	0.00

In percentages except if otherwise stated

The application of tariffs on processed coffee by some importing countries has been seen as a way of protecting their national roasting industries. This has been qualified as a limiting factor for the growth of added value in exporting countries as well as for reducing the dependence of these countries on exports of primary products.

With regard to tariff measures applicable to coffee in exporting countries, it should be noted that customs duties are even higher than in importing countries because of the protection given to the national coffee industry. Taxes on trade between exporting countries themselves are likely to hinder the development of the market for coffee and its derivatives within the geographical space of producing countries. Nonetheless, studies have shown a significant increase in the so-called ‘south-south’ trade of coffee in recent years, which now exceeds 2.5 million bags a year. There is considerable potential for this commerce to stimulate domestic consumption in producing countries and to furnish industries in these countries with types of coffee that are not locally produced for processing and re-export.

**Food safety legislation
requirements in
consuming countries**

The Organization also published a detailed report on food safety legislation requirements in importing Members (document WP-Board 1030/07), which included information on allowable levels of contaminants and agricultural chemicals, as well as compliance measures related to the security of the coffee supply chain, in particular with reference to bioterrorism.

INFORMATION SERVICES

Library/Public Relations Unit

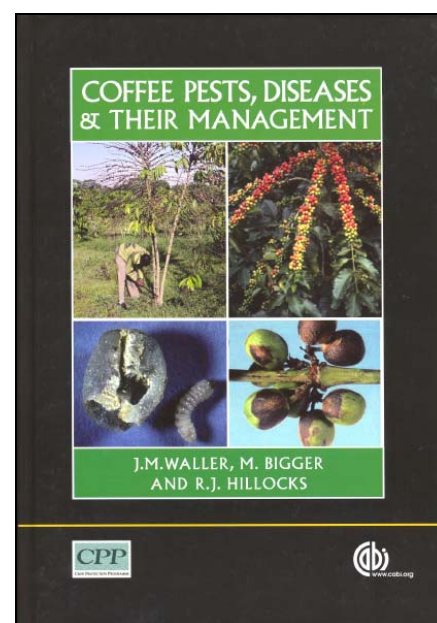
For many across the coffee world – whether farmers or civil servants, traders or market analysts, scientists or academics – the Organization’s Library/Public Relations Unit represents the first port of call when seeking reliable, current information on every aspect of the industry. With that in mind, the Unit has continued to expand and refine its operations to provide a full service to every stakeholder, responding to new requests for information across a wide range of coffee-related subjects. Key concerns of interest to users of the service during the past year have included sustainability, equitable trading, obstacles to consumption and promotion of domestic consumption in producing countries.

As part of its continuous effort to maintain comprehensive coverage of developments in the coffee world, the Unit draws on a range of sources, both traditional and online. Input from Member country institutions is vital in maintaining awareness of new publications and sources of information. All significant new studies or articles on coffee, together with details of books, reports, theses and other textual records are incorporated into the Organization's bibliographical database *Coffeeline*, which provides a searchable online catalogue of material identified and processed by the Organization from 1973 through to the present, currently amounting to more than 37,000 entries. During 2006/07, the Unit indexed 1,111 records for input on to *Coffeeline*, each reference consisting of bibliographical details and most including an abstract summarizing the original item. Both *Coffeeline* and the 'Library Monthly Entries Bulletin', a monthly listing of items added to this database, are accessible via the ICO website. The website received almost 30,000 hits per month on average during 2006/07 (an increase of 20% on the previous year) and continued to facilitate access to information generated by the Organization.

In addition to the wide range of market reports and academic papers on various aspects of the coffee industry, during the review period, the Library acquired a significant number of new publications, comprising cultural histories, socio-political surveys, practical guides and technical studies. These include, *inter alia*, Markman Ellis's *The coffee house: a cultural history*; Robert Hewitt's *Coffee: its history, cultivation and uses*; *Retrospective: 50 years of coffee and Brazil*; Sutti Ortiz's *Harvesting coffee, bargaining wages*; Robert Porter's *The coffee farmers revolt in southern Mexico in the 1980s and 1990s*; Daniel Jaffee's *Brewing Justice*; Deborah Sick's *Farmers of the golden bean: Costa Rican households, global coffee and fair trade* and Waller, Bigger and Hillocks' definitive *Coffee pests, diseases and their management*.

As the Organization's primary provider of information, the Library/Public Relations Unit has continued to fulfil its role of expanding the general awareness and understanding of coffee-related issues and enhancing the Organization's profile across the wider world.

New acquisitions



FINANCE AND ADMINISTRATION

The Organization is financed by the contributions of Member Governments. Members in each category of exporting and importing countries pay a contribution based upon their average coffee exports or imports as a percentage of total exports or imports. The total expenditure budget in 2006/07 was £2.8 million.

The Organization employs 30 people of 13 different nationalities and is headed by the Executive Director, Mr Néstor Osorio. The Organization's headquarters are at 22 Berners Street, London, where it has been based for over 40 years. The staffing structure of the Organization is in the process of being revised in preparation for the new tasks which the Organization will undertake in implementing the ICA 2007.

Two long-serving members of staff retired during the year each with more than 37 years of dedicated service to the Organization: Mr Pablo Dubois, Head of Operations and Secretary to the Council, and Mr George Valls-Jové, Registry Office.

Following a substantial refurbishment of the conference facilities undertaken in the course of the previous financial year, further improvements were made to the conference areas, including audio-visual and technical aspects, as well as opening up the coffee lounge to enable more receptions and informal meetings to take place. While the conference facilities host the Organization's regular meetings and seminars/workshops, they are also hired out to other international organizations and commercial entities: use of the facilities has increased significantly over the past year since they represent not only an attractive venue for parliamentary style meetings and presentations, but also constitute one of the few facilities in the United Kingdom which can provide simultaneous interpretation. Photographs of the conference rooms can be seen on the inside back cover of this Review.

OFFICE HOLDERS

International Coffee Council

Chairman: Mr Mauro Orefice (EC – Italy) ■ 1st Vice-Chairman: Mr Hiroshi Aimoto (Japan) ■ 2nd Vice-Chairman: Mr G.V. Krishna Rau (India) ■ 3rd Vice-Chairman: Mr Dewa Sastrawan (Indonesia)

Executive Board

Chairman: H.E. Mr José Angel López Camposeco (Guatemala) ■ Vice-Chairman: Mr Iván Romero Nasser (Honduras) ■ **Exporting Members:** Angola, Brazil, Colombia, Costa Rica, India, Mexico, Rwanda, Vietnam ■ **Importing Members:** European Community (EC, Belgium, Germany, Italy, Spain), Japan, Switzerland, United States of America

Private Sector Consultative Board (PSCB) – 2005/06 – 2006/07

Chairman: Mr Christian Rasch Topke (ANACAFÉ) ■ Vice-Chairperson: Ms Florence Rossillion (ECF) ■ **Producer representatives:** *Colombian Milds:* Asociación de Exportadores de Café de Colombia (ASOEXPORT) ■ Eastern African Fine Coffees Association (EAFCA) ■ *Other Milds:* Asociación Mexicana de la Cadena Productiva del Café (AMECAFE) ■ Asociación Nacional del Café (ANACAFÉ) ■ *Brazilian and other Natural Arabicas:* Conselho de Exportadores de Café do Brasil (CeCafé) ■ Conselho Nacional do Café (CNC) ■ *Robustas:* Association of Indonesian Coffee Exporters (AEKI) ■ Vietnam Coffee-Cocoa Association (VICOFA) ■ **Consumer representatives:** All Japan Coffee Association (AJCA) ■ European Coffee Federation (ECF) ■ ECF ■ ECF ■ Institute for Scientific Information on Coffee (ISIC) ■ National Coffee Association of USA (NCA) ■ Specialty Coffee Association of America (SCAA) ■ Speciality Coffee Association of Europe (SCAE)

Working Group on the Future of the Agreement

Chairman: Mr Saint-Cyr Djikalou (Côte d'Ivoire) ■ Vice-Chairman: Mr Max Schnellmann (Switzerland)

Promotion Committee

Chairman: Dr Ernesto Illy (ISIC) ■ Vice-Chairman: Mr Mick Wheeler (Papua New Guinea)

Steering Group on Promotion (2006/07 – 2007/08)

Chairman: Executive Director ■ Vice-Chairman: Mr Mick Wheeler (Papua New Guinea) ■ **Exporting Members:** Brazil, Colombia, Côte d'Ivoire, Indonesia ■ **Importing Members:** France, Italy, Japan, United Kingdom ■ **PSCB:** Chairman and Vice-Chairman ■ **Promotion Committee:** Chairman and Vice-Chairman ■ **ICO:** Executive Director

Statistics Committee (2006/07 – 2007/08)

Chairman: Mr Jaime Junqueira Payne (Brazil) ■ Vice-Chairman: Mr Neil Rosser (Neumann Kaffee Gruppe) ■ **Exporting Members:** Mr Jaime Junqueira Payne (Brazil), Ms Maria del Pilar Fernández (Colombia) ■ **Importing Members:** Mr Rob Simmons (LMC International Ltd., UK), Mr Neil Rosser (Neumann Kaffee Gruppe, Germany) ■ **Executive Director:** Mr David Brooks (USA), Mr Corneille Tabalo (D.R. Congo)

Finance Committee (2006/07 – 2007/08)

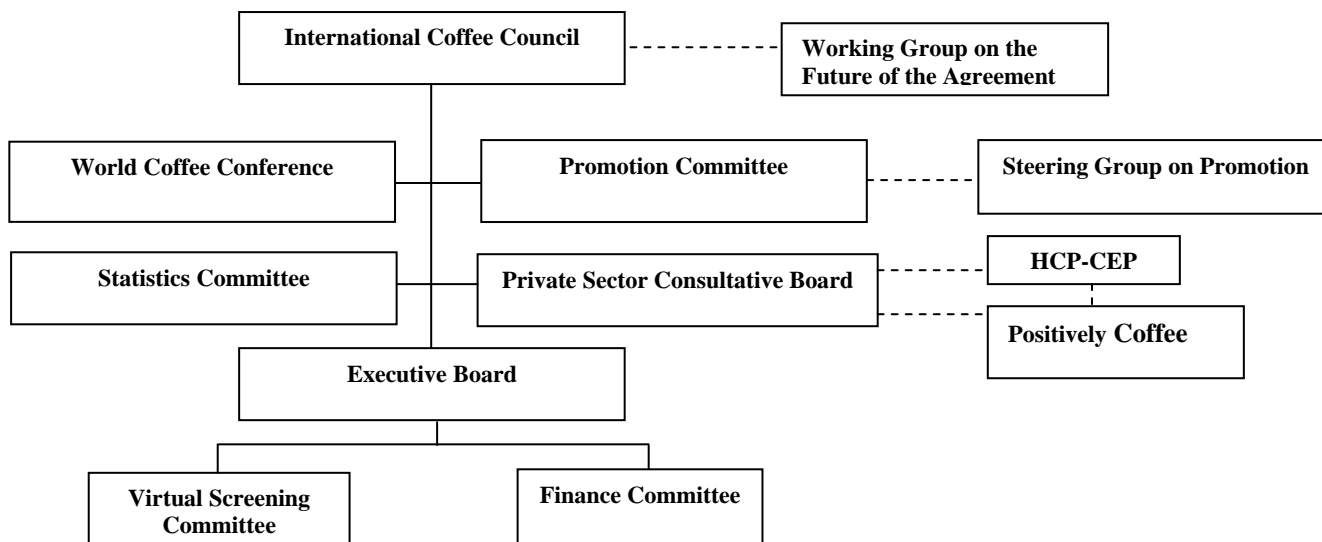
Chairman: Mr Mick Wheeler (Papua New Guinea) ■ **Exporting Members:** Brazil, Colombia, Côte d'Ivoire, Papua New Guinea ■ **Importing Members:** EC – Spain, Japan, Switzerland, USA

Virtual Screening Committee

Chairman: Executive Director ■ **Exporting Members:** Brazil, Côte d'Ivoire, Guatemala, Indonesia ■ **Importing Members:** Germany, Italy, USA

ICO STRUCTURE

ORGANIZATIONAL STRUCTURE



SECRETARIAT STRUCTURE

