“Collectively building on progress” beyond verification and certification

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The coffee reality

Every flavour…

… and everywhere around the world…

Every occasion…
Western consumers are looking at brands more holistically…
Standards and farmers don’t always share the same views on sustainability

<table>
<thead>
<tr>
<th>What farmers want</th>
<th>What standards require</th>
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<tr>
<td>High</td>
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<td>Higher yields</td>
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<td>New trees</td>
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<td>Competitive options</td>
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<td>Reduced production costs</td>
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<td>Pest / disease control knowledge</td>
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<td>Access to credit</td>
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<td>Low</td>
<td>High</td>
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<td>Protective equipment / safe agrochemical use</td>
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<td>Farm waste management</td>
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<td>Drinking water testing</td>
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<td>Recordkeeping</td>
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<td>Planting of indigenous trees</td>
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Coffee sustainability should not be an exercise driven by “western mindset”

Source: Technoserve Study 2013, commissioned by IDH
Coffee is a truly global beverage

Coffee consumption in Bangkok / Thailand.
Coffee farmers supply all consumers…

12 mio people live in Bangkok* and discover their thirst for coffee

* this is 1.5 times the entire population of Switzerland or the same size as the greater London area.

Mainstream coffee sustainability needs to address all coffee with or without labels.
NESCAFÉ in the coffee reality

NESCAFÉ was born in 1938 from a collaboration with the government of Brazil to create value from surplus coffee harvests.

- 5th most valuable food & beverages brand in the world
- 27 factories, 55% in emerging markets, 3 Coffee R&D centers
- 32 mio fans on Facebook
- 5500 cups per seconds drunk
- 12% of global green coffee purchase
- 17% directly from farmers

Pure soluble, Mixes, Ready to drink, Systems, Out of home

Pure soluble
Mixes
Ready to drink
Systems
Out of home
The NESCAFÉ Plan is based on a long-term evolution...

1962: First technical assistance to coffee farmers (Philippines)
1980: Nestlé Agricultural Research and Training Center (Philippines)
1986: First Satellite Buying Station (Philippines)
1988: Started coffee development in Yunnan (China)
1994: Genetic improvement of coffee with INIFAP (Mexico)
1996: Research on coffee in-vitro propagation started at Nestlé R&D Tours (France)
2005: Launch of “Sustainable Farming Practices” in line with SAI
2008: First Nestlé 4C Unit (Thailand)
2010: Consolidation of initiatives on sourcing, manufacturing and communication under the NESCAFÉ Plan
2013: Roll out of the Rural Development Framework - RDF (Global)

11 June 2015
Rural Development Framework

Farmers
Farmers are business orientated and farming by choice

Farm workers
Rural based employment is attractive for workers

Communities
Communities are progressing economically, environmentally & socially

1. Farmer Net Income
2. Farmer Knowledge & Skills

3. Labour / working conditions

4. Women’s Empowerment
5. Clean Water & Sanitation
6. Nutrition & Health
7. Property Rights
8. Natural Resource Stewardship

+ Optional Topics
Our markets have made big investments to ensure future supply

- **250 agronomists** in the field,
- **36,000 farm visits** a year.
- **340,000 farmers** trained over 5 years
- **73 mio coffee plantlets** distributed since 2010
- **186,000 tonnes of coffee** procured through farmer connect from **175,000 farmers** in 2014
- **130,000 MT** of the volume sourced through farmer connect is **4C compliant**
- Nestlé has sourced a considerable amount of **4C coffee** through the trade channels
The NESCAFÉ Plan is addressing the local realities

Nestlé has invested between USD 20,000 to USD 100,000 for every 4C unit (excl. premiums, verification costs, membership costs)
Did our investments in 4C units pay off?

- Hundreds of millions washed through the mills of the standards and still not fixed the problem(s)
- Excessive reliance on outsiders and not local capacity
- Certification became a money making racket, that in the pursuit of corporate income and brand domination compromises values
Sustainability myths

• Certification equals sustainability
• Being certified means a company / brand is sustainable
• Certifications means continuous sustainability and improvement

Moving beyond sustainability & certification

• Redefining values
• Transform
• Traceability / transparency and yes,
• Check – verification!
• Urgent need for local verification capacity with independent expertise

There needs to be a transition from “command and control” to “coach and empower”!
Will yesterday's innovative models persist the next 10 years?

- Yes, good agricultural practices brought many improvements and was a good start.
- But, very restricted access of smallholders to new technologies, credit, knowledge and equity to grow are limited.
- Even with *iseal alliance* help – “what makes a standard credible and what is a sustainable standard” - Todays coffee standard systems are not designed to counter the challenges, e.g. aging farmers, rural food scarcity and malnutrition, necessary rural infrastructure, income resilience and climate change.
Will yesterday's innovative models persist the next 10 years?

• No real progress to reduce the cost of certification and verification for producers and other supply chain actors

• With all efforts to optimize through GAPs on sub-optimally sized farms, will definitely not create the absolutely more robust productive infrastructure we need to retain young talented coffee farmers to serve an ever growing consumer base worldwide.
The NESCAFÉ Agronomist embraced the 4C concept...

Ngoc
Vietnam

Gonzalo
Mexico / China

Tatrit
Thailand

Yapo
Cote D’Ivoire
… and have a positive feedback of 4C.

- The code itself is good and works and is applicable for different farming realities.
- 4C provides opportunities of sharing knowledge and getting new insights through feedback from farmers.
- It is a good way for agronomists to learn beyond their core competencies.
- It is good channel to develop farmers organizations and empower local farmers / help them to become local facilitators/ teachers in their own coffee community.

These are great achievements but now we have to build on the progress of achievements.
Innovation and renovation of the 4C association is essential to keep pace with the coffee reality.

The split between verification operations and the platform is not only logic, it is also essential for maintaining its “raison d’être”.

There is an urgent need to have a LEAN, efficient standard operation function in place:

- the financial model / sensitivity of volume scenarios needs to be framed urgently
- business-driven mindset is key to deliver best value for money and maintaining consistency, credibility and service delivery.
- challenge every day the verification model in the spirit of continuous improvement
Conclusions (2)

The *platform function* has to step up and provide more leadership as an enabler to the entire sector.

A neutral home for a dynamic strategy requires not only changes on the paper, but also in the mindset.

To change the model from a demand-driven system to a sector-wide engagement, a business development mindset is required.

Standards will remain as a tool in “a toolbox” as part of a competitive interpretation of sustainability. Standards are not the end game and need to be developed continuously.

The scope of the Governance of the 4C platform needs to be readjusted:
From operational (inward oriented) problem solving to providing strategic guidance and acting as ambassadors for the common cause (serving coffee producers and 4C members).
Good Food
Good Life