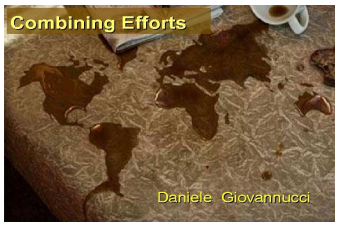
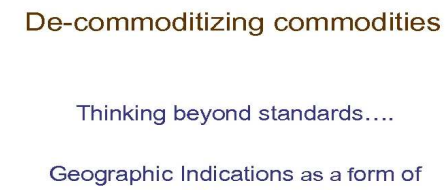
Daniele Giovannucci, Combining Efforts

01-10-2009, Amsterdam

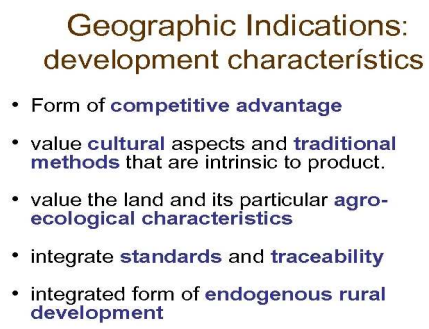
TCC Combining Efforts Conference



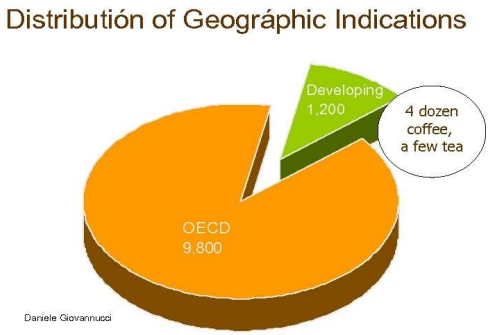
Thank you for the invitation. This idea of **combining efforts** is really the theme in something that is critical to the concept of sustainability. It is a core issue. Sustainability ís combining efforts. If you are not, then you are probably not sustainable because few of us can thrive as islands.



One of the things I have been thinking about is how to "**decommoditize"** commodities. Commodities have become commodities for a reason. Standardization of products facilitates trade and of course that is important. But it also has created a difficult situation where producers, perhaps the most significant part of that trade, have lost power and their products become interchangeable so that many subtle values are lost in the race to be less costly. The individual farmer no longer has much power in many of the transactions. This is a grave problem because trade systems do not have ways to identify the loss of vital aspects of our food and agricultural products.

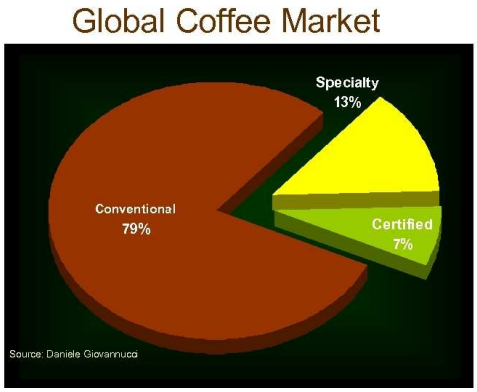


There are many ways to look at this. I would like to highlight some of those ways, for example, the idea of **Geographical Indications**. We all live with these. In Europe there are PDO's (Protected Designations of Origin). Many of you may drink Bordeaux or Scotch whiskey, you may eat Parmigiano or Roquefort cheese. These are products with Geographical Indications. And they are a unique way of differentiating commodities and pointing out the subtle but valuable differences. This also helps to develop a competitive advantage for the producers and entire supply chains: taking a product and creating a positive market condition for an entire group of people or an entire region, not for just one company or one producer.



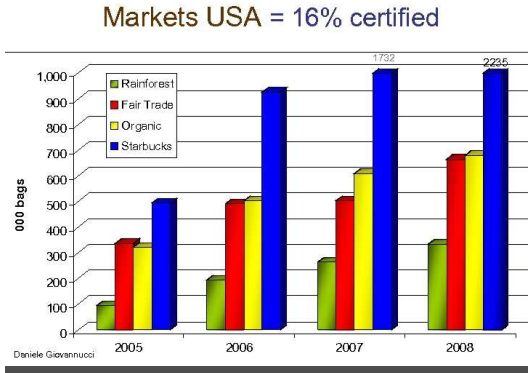
Unfortunately, globally most of them are in the thirty industrialized countries (the OECD Countries). Only a small fraction are in the other 162 countries, most of them developing countries. Do those 162 others not have interesting food? I doubt it! In fact they have some very interesting foods and values. But they have not developed some of these concepts to fit our trading systems except in a few cases. We are all familiar with Darjeeling tea, Jamaican Blue Mountain Coffee, Basmati rice, or Tequila; this are Geographical Indications. Some are worth hundreds of millions of dollars, or even billions of dollars, in trade. This is an extraordinary way for an entire region to begin developing its competitive advantage and essentially a brand. Darjeeling tea, for example, is not only a Geographical Indication but also a brand, Ceylon tea is also a brand. This is one of the ways to begin thinking about how we can approach these commodity concepts to facilitate a more sustainable business for producers.

There is a book now on Geographical Indications (available from International Trade Centre). We've been working at it for 2 1/2 years to show how these things work and how developing countries can sort out best practices.



The TCC has put out this great information document: the Coffee Barometer 2009, so I´m not going to bore you with repeating statistics, except to confirm that this slide indicates where we are with coffee, which is the most advanced of the commodities moving toward certification. We have actually gone to 7% of total green coffee exports in 2008. And even just a decade ago it was under 1%.

I will give you a bit of info about the US certified coffee market, as it is the world's largest market for coffees. And I think it is interesting just to see how the trend evolves over time and how certified coffee has consistently outperformed the conventional coffee market, that is growing there at a little under 0%; in other words: it is not growing. Most of the growth is with the certified and the specialty coffees. That is what has been happening in the last few years. If you add all the other certifications you're looking at 16% of all of the coffee now sold in the world's largest market is certified as "sustainable". There is only one country that has done better than this is in terms of its certified market share: our host country: The Netherlands. Congratulations!



This next slide is the US market; a 22 billion dollar market. Now look at the growth. This kind of growth originally occurred among consumers who were committed to these concepts, who understood organic, understood fair-trade, understood these kinds of certifications and moved the market forward but relatively slowly and only to a certain point. What shifted here is the interest of the mass market and the large retailers, particularly supermarkets. That shift is what has taken it from being an interesting niche, into being a mainstream factor.

Leaders

- Market leading firms increasingly commit to more sustainable approaches
- The category now leaves niche and becomes mainstream with WalMart, Carrefour, and leading brands such as Cadbury, Chiquita, Starbucks, and Mars

We need to understand what it is that moves these things forward. Because it is no longer just our goodwill, it's no longer people who really care about sustainability that are buying these coffees, it's happening for other reasons as well. Here on this slide are a few names of leading actors in today's retail trade that are making very substantial commitments to sustainability. You couldn't put more than a couple of these on such a list ten years ago. So you have these big names making strong commitments. I guess what this says is that there is clearly a future. This is clearly no longer something we do as an "extra" in the world. This is now becoming embedded as part of our culture.

New Paradigms

- Fundamental changes at a global level:
  - 1. new **Governmental - Regulatory** environment
    - policies imply new standards
  - 2. new **Business** environment
    - differentiation & risk mgt.
    - corporate Greening- eco-footprint, efficiency, "dematerialization"
  - 3. new **Consumer** environment
    - info create demand for health, env. & social justice

All increase the demand for standards

It is all driven by **three paradigms**. Fundamental changes, I would say that there are three at the global level.

The first one is: governments are increasingly concerned about **food safety issues** and about balance of trade issues. The private sector moves fast. The commodity chains are globalized. There's not a government in the world that can begin to keep up with what is happing in these shifts and in the standards world. So governments are trying to figure out how do we manage the parts that we need to manage and leave the rest alone where the private sector does quite a good job. Besides policy, food safety and traceability standards are their best tool.

There is a **new business environment** as well. That new business environment is about two things. It's about bigger and bigger companies that need to somehow **differentiate themselves**. They need to let their costumers know what they are doing differently than their competitors. Why should you walk into my shop and not into my competitors? The second one is about **risk management**. We live in a world where we no longer have a soft newspaper article about a little boy who got sick eating something. No, the press latches on to even small events and can make them into big things: "Brand X can kill children!". We have huge media events around food. So, companies are increasingly concerned about their reputations, because one bad media story can cost them millions of dollars in their stock value. So, how does a company manage risk? Standards help it ensure that it has the right standards in place so that it is not involved in child labour or associated with pollution practises? This risk management is critical today.

There is also entire area of eco-efficiency; the dematerialization of packaging or corporate greening and measuring ecological footprints that is happening in companies. Most of them do it because there are considerable costs savings. Wallmart, the biggest food retailer in the world, has done this and saves millions of dollars per month just **being more efficient**. So it's making economic sense as well as, perhaps, ecological and social sense.

And, finally the **new consumer environment**. Economic, ecological and social justice is increasingly demanded and driven by more readily available information. Much more information is available now than ever before to consumers. All of these elements combined require a lot of new standards.

Standards as Competitive Factors

Since 1995, more private international food-related standards have emerged than in previous 5 decades.

The International Organization for Standardization (ISO) publishes 1100 new standards annually !

Clearly, standards have become an important competitive factor and are becoming an important determinant of access to markets.

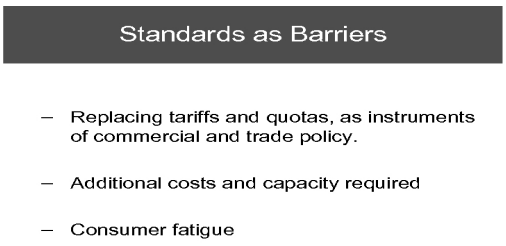
Standards used to be a way to facilitate the movement of goods in global trade. If I specified a kilo, we all knew what a kilo was. If I said a Grade Two wheat you would know, if you were shipping the wheat, what I wanted. But standards are moving at a breakneck speed. In the last 14 years more private standards have emerged than in the previous 50 years. So we are living in this age where we are creating lots of new standards all the time. You could imagine what challenges that could create. Just one organization, ISO, creates 1100 new ones annually.

Standards are shifting and becoming an issue of access. They used to be facilitators, but now they are also becoming barriers for some producers. Does this slide with more than 30 agriculture standards labels confuse you? it is confusing to most and I'm sure someone could add more labels to that list.

So standards are market tools, but they also can cause problems. It was concluded at a at a conference a few years ago hosted by our friends at ISEAL, that having many standards does create difficulties for producers and consumers. And as more and more of them emerge, the **issue of transparency**, of understanding them, of managing them, becomes more and more challenging. To deal with it from the point of view of consumers and producers, there are two things we need to look at.

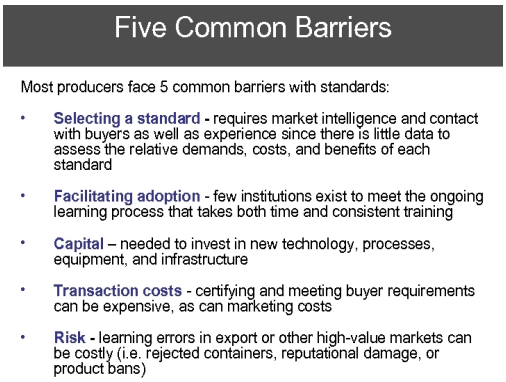
There are two key areas to consider. One of the key things is **knowledge**. We are all inundated by tons of information. But how do we digest the information into useful knowledge? That is a very different step! We are going to talk a little about how to get that information into the right hands and how to provide access.

The second one is a dirty word: **harmonization**. Some of you don't like this word. I've been thinking it was a good idea for so long, that to me it doesn't sound like a dirty word anymore. There are many ways of looking at harmonization. A lot of standards bodies don't want to harmonize. They feel they each provide a unique and valuable benefit. They may well do that. But there are areas where we can harmonize. Particularly in reducing the efforts and costs producers are making when working towards compliance and certification. In some areas Standards bodies can have mutual recognition. I was at FLO yesterday and it is good to see they are talking about this area. How they can begin to recognize what other standards bodies are doing as fulfilling part of their FLO standard? So how can we avoid repetitive processes with producers to save them time and money? There is an idea of a pre-competitive training process, like what the Sustainable Commodity Assistance Network (SCAN) and others have proposed. This is about standards bodies working together so that producers can be trained to more easily develop the knowledge and understanding of what's basically required before going into the specific details of any particular standard. These are obvious areas that can be harmonized.



Standards can obviously be **barriers**. Just looking at that list of 30 labels, can give you an idea how they can act as barriers to trade. Also, as the WTO agreements remove trade barriers such as tariffs and quotas, standards have become one of the important ways for governments to manage their agricultural trade, especially for the issues of food safety. Standards imply **additional cost and additional capacity** to comply. We do a survey on sustainability standards, particularly organics, every year in the North American markets, and now very few coffees have just one certification.

Then there is the issue of **consumer fatigue**. How much more can you stand as a consumer? Are you able to digest these differences beyond the basics? You may be a sophisticated audience, but I ask you to remember how the average consumer buys. People who shop in supermarkets make many decisions in just a few seconds of deliberation. And if they are at all confused by a product, they go to the default mode, that is: take whatever they bought last time.



It is a difficult task to get certified, we hear this from a lot of farmers. I would like to invite you to share your experience of what are the needs. What are the most important things we can do in order to reduce the difficulty of certification? How do we make it easier and thus facilitate sustainability? Standards are of course one way, we have been talking about these and I don't want to limit our scope to that.

Suggestions from the audience:

1. A formal management system, a supply chain or a value chain that actually functions with communications and feed back loops offers a more direct relationship system instead of anonymous trade. This is one way of de-commoditizing.

2. A common information platform. How do you get the knowledge, how do you disseminate it? How do we know it is credible? Most farmers go to certifications simply because someone told them: "it's the best thing" or "you'll make a fortune!!!"

3. De-mystification. Going beyond information, sharing critical knowledge.

4. Using a common language. Translate standards into the local languages is important.

5. Harmonizing at least part of the process such as certification, inspection, or the paperwork so you can do it in one visit or one approach. The inspection or certification part is only a little tip of the iceberg that you see, but 90% is under water and that is the adaptation part. The farmer has to learn the requirements and then adapt to the systems and recordkeeping.

6. Helping to facilitate market recognition so that there is a premium. Because that is the only way you will have a sustainable premium. If the market recognizes and pays for it, then it is more sustainable than a charitable contribution.

There are also three interrelated initiatives that can be interesting for you to consider as tools designed to further sustainability:

1. The first one is the Committee on Sustainability Assessment (COSA). This is about real knowledge, to really understand what happens with those standards. What changes really occur? We all have ideas about of what standards should do, but what are the outcomes and the actual costs and the actual benefits at the ground level.

2. The second one is the Sustainable Commodity Assistance Network (SCAN) it is a group of non-profit organizations working together to train producers on the key things that are part of every standard at a pre-competitive level. This includes: good agricultural practices, basic financial literacy, recordkeeping, and traceability.

3. And finally producers need financing to support their sustainable efforts: the Financing Alliance for Sustainable Trade (FAST) is a group of well over 100 organizations that range from large entities like Rabobank all the way down to small NGOs.

Committee On Sustainability Assessment

a global consortium of 20 institutions
promoting sustainability

These three initiatives then are a way of moving forward or a combined package that can be used in different ways by different projects or organizations to forward the concept of sustainability at the field level. Let's discuss the first one: COSA.

Advisory Panel

Producers	Donors	Initiatives	NGOs	Research	Private
East Africa Coffee Assn	European Commiss.	Rainforest Alliance	Solidaridad	Columbia	Nestle
Colombian C. Growers Federation	UNCTAD	Utz Certified	OXFAM	Cornell	Kraft Foods
Peru Junta Nacional		FLO	SNV	CATIE	Starbucks
India Board	ICO	4C	European Coffee Fed.	CIRAD	Sara Lee
Guatemala Anacafe	FAO	IFOAM	SCAA	INCAE	SAI
Mexico Dept. Coffee	USAID	ISEAL	CQI	Embrapa	ECOM

The Committee on Sustainability Assessment or COSA is the initiative of more than 20 global institutions. We are all facing a shortage of credible information about what happens to a farmer at the ground level. COSA has looked at all of the sustainability-oriented standards to understand what they try to achieve, and developed credible and scientifically appropriate ways measure that at the field level.

Recognize Sustainability in Many Forms

- Organic
- Fair trade
- Utz Certified
- Rainforest Alliance
- 4Cs
- Starbucks C.A.F.E. Practices
- Nespresso
- SMBC - Bird Friendly, etc.

Since we all have a different idea of what is sustainable, COSA doesn't try to impose any one idea. It simply provides neutral data and information so that people can decide what works for them. Therefore we recognize sustainability in all its different forms. There's no pre-judgment of what works and what doesn't.

What COSA measures

ECONOMIC		
CATEGORY	CRITERIA	
1. Farm Income	Productive Efficiency Post-Harvest Quality Price Received	Key Indicators
2. Risk	Volatility Financing Diversification	
3. Market Access	Relationship Transparency	
4. Management	Efficiency Administration	
5. Organizational	Management Services Support Activities	

We are measuring not just the straightforward economic aspects; the hard part is measuring the environmental and the social changes that occur. It is clear that the basis of COSA, or any credible sustainability measure, is that it includes the economic, the social, and the environmental aspects.

What COSA measures

ENVIRONMENT

CATEGORY	CRITERIA	Key Indicators
1. Resource use	Energy Use Water Use Agrochemical Use Land Use	
2. Pollution	Soil Water	
3. Soil degradation	Erosion	
4. Recycling/Reuse	Natural matter Man-made matter	
5. Biodiversity	Flora Farm Environmental Administration	
6. Carbon sequestration	Storage and production capacity	

What COSA measures

SOCIAL

CATEGORY	CRITERIA	KeyIndicators
1. Health and Safety Conditions	Policy awareness Access to medical services Handling of chemicals Access to portable water Living conditions	
2. Working Hours and Wages	Wage rates Equitable treatment	
3. Education and Training	Access to education Access to training	
4. Basic Rights	Functioning labor contracts Protection from Risky Activities Child Labour Right to Organize	
5. Community Relations and Well-being	Resource Management Activities	
6. Farmer Perception	Satisfaction	

What COSA does

- Assess compliance **costs & benefits**:
  - **direct** (i.e. record-keeping, certification)
  - **indirect** (i.e. the costs of learning).
- Measure both **tangible & "intangible"** values associated with sustainable practices. (i.e. yield changes, co-op development)
- **Capture differences** experienced in distinct eco-systems, regions, production intensity, and plantations/small farmers.

COSA assesses compliance effects, in other words what are the costs and benefits. We go beyond the obvious, like direct costs such as recordkeeping or certification. There are also many indirect costs that occur when you adopt a certain certification system. We look at both the tangible things you can measure and a variety of important intangible values that are associated. Things like yield changes are fairly tangible. So if a farmer adopts a particular system such as organics or Rainforest Alliance, his yield may change. Wouldn't you like to know before you started a particular certification, what tends to happen to the many other similar farmers that adopted that certification under similar conditions? There are also intangibles, like association or cooperative development. Isn't it important to measure the value of an organization being strengthened and operating more efficiently? That is all part of what COSA does.

Things to Know About COSA - 10 FAQs

1. Who operates COSA and how is it paid for?
While two dozen partners have supported its development, the International Institute for Sustainable Development, along with and the United Nations Conference on Trade and Development are the primary facilitators. Historically, the 5 year participatory development process has been principally driven by a group of committed volunteers. Today, implementation expenses in countries are supported by local partners as well as international NGOs and donors.

2. What is its primary objective?
The understanding of the complete costs and benefits of implementing any sustainability initiatives such as organic or fair trade. This means looking at not just the economic but also the environmental and social effects as well. Equally important is sharing that information publicly so that everyone – farmers to policymakers – can effectively make appropriate choices about sustainability.

3. What exactly does it measure?
COSA is designed for all commodities but has first been developed for coffee and cocoa with plans for cotton, tea, and other crops.

Things to Know About COSA - 10 FAQs

4. Is COSA information be shared?
COSA works directly with the United Nation's International Trade Center to provide a public database for agricultural sustainability. Since this is likely to be the largest independent collection of agricultural sustainability data in the world, COSA will work with quality control measures to allow for comparable results and share the measurement tools and processes as well as the raw field research data with research institutions for analysis.

5. How long does COSA take to get information?
The field process requires about 2-3 hours with a farmer to complete a survey. COSA can be used immediately in management feedback or project monitoring and it is perhaps most effective when measures are taken annually and changes are observed over time. Changes at the environmental and social level are not always immediately evident, so seeing at least 3 years offers a much more realistic understanding.

Things to Know About COSA - 10 FAQs

6. Is it an academic exercise?
COSA is a scientifically rigorous process that offers statistically relevant information and makes that publicly available through its partnership with local agencies and with the United Nations International Trade Centre for global dissemination. However, its broad range of practical information including the costs of production, key health concerns, the level of soil erosion and much more makes it a valuable decision-making and improvement tool particularly for farmers and for sustainability initiatives as well.

7. What does it cost to implement?
Implementation can be at the farm supply chain level or the regional and national levels. At its most ambitious to date, national implementation measuring six different sustainability initiatives has not exceeded US$175,000 p.a. and other interventions have been less costly. Once done, subsequent measures are expected to be relatively inexpensive and can even be applied at a co-op level.

Things to Know About COSA - 10 FAQs

8. Are there other ways to measure impacts of sustainability efforts?
Yes, there are several recent attempts to develop measures and indicators. Some borrow from COSA and some are evolving separately. Only one other system (a private one) has been in development and use for several years as a comprehensive and tested approach to sustainability.

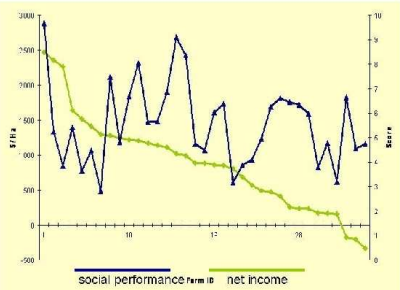
9. What is the basis or legitimacy of COSA?
COSA is based on the Bellagio and Rio principles focusing on economic, social, and environmental measures.
COSA is designed as a neutral measurement method to understand the outcomes of any sustainability efforts
COSA is a public tool and generates publicly-available information
COSA has been tested in 8 nations and follows state of the art scientific principles that result in credible information
COSA methods were developed by a broad group of stakeholders that range from producer groups and NGOs to international agencies and private firms.

Things to Know About COSA - 10 FAQs

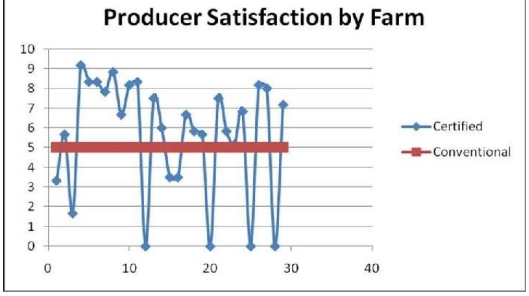
Is COSA itself sustainable?
COSA works directly with regional or national partners to build capacity to conduct good measurement. It serves as a farm management tool and facilitates smarter business decisions on the part of farmers and funders or firms. COSA efforts will also inform the sustainability initiatives themselves – several are already active partners – to improve their effectiveness.

COSA must be sensitive to what the differences are. So, we want to understand how a small farmer's adoption and response to standards may differ from a large farmer or a big plantation. Similarly, how do women adopters fare differently, how do those from different agro-ecological zones differ, what about those who are far from markets? Is there a need for different tools to deal with farmers who are less literate? COSA helps us to understand these and many more variables and thus makes it possible to understand and apply sustainability initiatives more rationally and much more effectively.

COSA: Multi-Criteria Analysis
Social performance and net income



COSA: satisfaction metric



COSA: **Multi-Criteria Analysis**

- structured approach to the management and analysis of **distinct variables** without attempting to translate individual variables into a single common unit.
- distinct from analytic tools (such as RISE and Ecological Footprinting) - ensures the integrity of measured variables by avoiding heavily subjective weightings.
- contribute to complex decision making process.

COSA Multi-Criteria Analysis
Farm level performance

how to use COSA

- **Diagnostic tool**: Evaluate farm practices based on international sustainability standards
- **Didactic tool**: Learn what implementation of sustainable practices would mean at the field level
- **Business decision making tool**: Assess changes necessary to be compliant with a sustainability systems and maximize benefits
- **Monitoring and evaluation tool**: Using the tool over time, sustainability progress can be assessed and returns on investments or cost/benefit ratio evaluated
- **Negotiating tool**: Understanding real costs and benefits of adopting sustainable practices enables producers to negotiate more realistically.

Synthesis

- Sustainability aligns with **market demand**
- **Not one-size-fits-all**
- Understanding **cost-benefit** & **impact** is critical
- Require consistent local **institutional** support

www.Dgiovannucci.net

http://www.iisd.org/standards/cosa.asp

Can also download sustainability and coffee papers at:
www.ssrn.com/author=433838

In summary, this whole issue of sustainability clearly aligns with market demand. It is no longer a niche. But it isn't 'one size fits all'. So, we really need to understand much more clearly what works for different farmers, in different places, and under different conditions before we can effectively be sustainable. If you don't understand the costs and the benefits and you don't understand your impact, you are in trouble or you may be doing harm. We really must empower people and institutions locally to do this work. A level of institutional support is required. COSA is committed to civil society organizations, the cooperatives themselves, the NGOs, the folks working at the ground level and we want to stimulate this kind of local capacity building that lasts over time. COSA works only with local partners to train them to adapt the tool and use it locally.

Finally, to remind us all that we are not just talking about products or processes – we are all committed to something much larger, I would like to leave you with words from "*The Omnivore's Dilemma*" by Michael Pollan " At the beginning and end of any agriculture supply chain there is a biological system: a human body, a place of soil and water…The wellbeing of one is intimately connected with the wellbeing of the other".