



Grounds for Change

Creating a Voice for Small Coffee Farmers and Farmworkers with the Next International Coffee Agreement



Oromia Coffee
Farmers
Cooperative Union



Uganda Coffee Trade
Federation (UCTF)



National Union of
Coffee Agri-businesses
and Farm Enterprises
(NUCAFE)



Karnataka
Growers
Federation



Foro
Del Café





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I. Executive Summary

Coffee plays a crucial role in the livelihoods of millions of rural households in the developing world. Small-scale family farmers produce over 75% of the world's coffee. Yet market volatility and declining terms of trade, along with inadequate access to infrastructure, financial resources, and market information, put sustainable livelihoods out of reach for millions of rural families. The coffee market continues to showcase the need to address the commodity crisis on a global scale, a crisis that is hampering the development of many countries. Small-scale farmers and farmworkers have been hit particularly hard by the crisis. Their condition has been linked to migration and increased production of illicit crops, giving rise to a vicious cycle of social instability at local and regional levels – trends that have implications for global interest in wider peace and stability.

Over the past two decades, the private sector, NGOs, and consumers have responded to the sustainability challenges facing coffee producers through a variety of multi-stakeholder, market-based initiatives. Certification systems like Fair Trade, Organic, Utz Kapeh, and Rainforest Alliance have consistently recorded growth that far exceeds that of the overall coffee market. Evidence suggests that these initiatives have the potential to offer multiple benefits to smallholder coffee farmers and farmworkers. However, the growing diversity of initiatives has also given rise to new obstacles, costs, and uncertainties that have restricted full access by those most in need. The difficulties such initiatives face represent a significant challenge to sustainable development at the production end of the supply chain. The International Coffee Organisation (ICO), through its attention to the macroeconomic conditions of the global coffee market, offers a venue to maximize the impacts of voluntary supply chain initiatives on sustainability.

Under the provisions of Article 52 of the 2001 International Coffee Agreement (ICA), the ICA is due to expire on September 30, 2007. At the 2nd World Coffee Conference in September 2005, several organisations presented the International Coffee Organisation and its delegates with the *Carta de Salvador* – the Salvador Declaration, which stressed the ongoing effects of the coffee crisis facing small-scale family farmers and farmworkers. The current discussions at the ICO on the future of the International Coffee Agreement present an historic opportunity to address the ongoing crisis facing smallholder coffee farmers and farmworkers by contributing to sustainable coffee supply chains.

The ICO represents the only dedicated forum for discussing coffee-related matters at the international level and must provide a focal point for international cooperation on the development of a sustainable coffee economy. The very fact that the ICO brings together net coffee-importing and -exporting countries for the development of *shared* global strategies represents a major opportunity for the design and implementation of an equitable and participatory trading system. The negotiation of the next ICA presents a rare opportunity to fortify the underlying spirit of participatory governance embodied within the ICO to date. Below is a series of specific recommendations for expanding the reach of the organisation to small-scale producers and other non-governmental stakeholders, as well as for creating specific strategies toward the development of sustainable supply chains at the international level.

Recommendation 1: In an effort to build shared understanding and approaches to sustainability in the coffee sector at the global level, the International Coffee Organisation should establish a “Consultative Board on Sustainability” using ICO document WP Board 960/04 and the existing ICO Private Sector Consultative Board as points of reference.

Recommendation 2: In an effort to expand the reach of the Private Sector Consultative Board to smallholder producers, total exporting country representation should be expanded from 8 to 12 with the addition of an exporting country representative to each “coffee group” reserved specifically for smallholder producer organisations.



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Recommendation 3: Following its mandate as the principal body for generating and disseminating global statistics for the coffee sector, the International Coffee Organisation should establish a web-based “coffee observatory” information platform that provides aggregate data on price levels for differentiated coffees on the basis of geography, “sustainability”, and other quality-related conditions of production.

Recommendation 4: In order to promote sustainable participation in the market by smallholder producers, the ICO should work with member governments, the private sector, and civil society groups to a) stimulate access to credit for small producer organisations, b) establish risk-management facilities and tools suitable for use by under-resourced small farmers, and c) organize and manage a “clearinghouse” to disseminate information on technical assistance projects implemented in member countries. The ICO should also establish a voluntary “Partnership Fund for Sustainability” dedicated to facilitating smallholder participation in the Sustainability and Private Sector Consultative Boards, as well as the implementation of better management and marketing practices, diversification, and strengthening producer organisations.

II. Introduction

The coffee price crash of 2001 had devastating effects on tens of millions of smallholder farmers and farmworkers around the developing world. Though recent improvements in the international price of coffee are providing some relief, the dynamics of the coffee market have not shifted in ways that guarantee long-term stability for those at the bottom of the supply chain. The 2001 crash took place in the context of a long-term trend in which coffee farmers, workers, and net coffee-exporting countries have seen the value of their coffee diminish.

Coffee plays a crucial role in the livelihoods of millions of rural households in the developing world. Small-scale family farmers produce over 75% of the world’s coffee. Market volatility and declining terms of trade, along with inadequate access to infrastructure, financial resources, and market information, put sustainable livelihoods out of reach for millions of rural families. The coffee market continues to be a showcase of the need to address the commodity crisis on a global scale, a crisis that is hampering the development of many countries. This is directly linked to the global interest in wider peace and stability.

The current discussions on the future of the International Coffee Agreement present an historic opportunity to address the ongoing crisis facing smallholder coffee farmers and farmworkers by contributing to sustainable coffee supply chains. At the 2nd World Coffee Conference in September 2005 several organisations presented the International Coffee Organisation and its delegates with the *Carta de Salvador* – the Salvador Declaration¹, which stressed the ongoing effects of the coffee crisis facing small-scale family farmers and farmworkers. This paper calls on International Coffee Organisation members to support small-scale farmers and farmworker organisations by ensuring space for their direct participation in international debate, creating mechanisms that enhance the availability of market information to small-scale farmers, and maximizing opportunities to develop cohesive international strategies to provide technical support, access to credit, and direct access to markets.



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III. A Call to Action: The Relevance of the ICO for a Sustainable Coffee Sector

As one of the most important commodities in terms of value traded globally, coffee plays a crucial role in the livelihoods of millions of rural households across the developing world. In addition to providing livelihoods for the estimated 25 million small coffee farmers who depend directly upon coffee as their primary source of income, coffee contributes significantly to foreign exchange earnings and plays a leading role in determining opportunities for employment and infrastructure development in more than 50 developing countries. The breadth and intimacy of the relationship between coffee producers and a host of intermediary institutions along the coffee supply chain make the sector of critical importance to sustainable development at the local, regional, and global levels.

The Crisis Continues for Smallholder Farmers and Farmworkers

Unstable and long-term declining prices are definitive characteristics of the coffee sector. Both pose significant difficulties for small producers seeking to secure sustainable livelihoods. Since the 1980s, oversupply on international markets has resulted in a nearly 70% decline in nominal coffee prices.² The damaging effects of long-term declining terms of trade facing coffee producers are exacerbated by high price volatility. Over the past several decades, global export revenues from coffee have fluctuated between \$5 billion and \$14 billion per year.³ These dynamics make it extremely difficult for coffee producers and policy makers alike to determine optimal production strategies. Against the backdrop of market volatility and decreasing overall revenues, producer capacity to move into more lucrative markets is challenged by the systemic absence of access to credit, risk-management tools, market information, and assistance in accessing value-added markets.⁴

The difficulties facing the coffee sector have direct impacts on the social well-being of farmers, farmworkers, and their communities. Because coffee farmers typically depend upon coffee as their primary source of cash income, volatile and declining coffee prices can have a direct impact on access to education, housing, food, medical services, and other basic necessities.⁵ Hired workers serving coffee plantations and estates often face substandard wages and working conditions under uncertain and declining market conditions.⁶ When the international coffee price crashed to 30-year lows in 2001, millions of coffee farmers around the world faced hardships and reduced incomes. In countries like Ethiopia where significant portions of foreign revenue come from coffee exports, the crisis left farming families unable to pay for education and health care. Throughout Central America, an estimated 600,000 jobs on coffee farms were lost.⁷ These conditions have been linked to migration and increased production of illicit crops, giving rise to a vicious cycle of social instability at local and regional levels.

Coffee and the Environment

Although coffee production may be compatible with natural ecosystems when sustainably managed, the widespread introduction of monoculture and related, technified production systems has put many coffee-producing regions at risk.⁸ There is documented evidence that public policy aimed at increasing productivity in Latin America has led to substantial transition from traditional shade-grown production to “sun” coffee or “monoculture shade” coffee, resulting in reduced biodiversity and capacity for carbon sequestration.⁹ Similarly, coffee production has been identified as having been a substantial cause of deforestation in Africa.¹⁰ The fact that more than 80% of the 11.8 million hectares devoted to coffee production around the world is planted in areas of former or current rainforest highlights the global importance of the environmental impacts of coffee production.¹¹ Finally, the shift toward the use of synthetic chemicals associated with some production systems poses direct health and safety risks for coffee workers and their communities.¹²



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An Historic Opportunity: The Role of the ICA in Securing Sustainable Production

The social, economic, and environmental challenges facing the coffee sector are part of a long history of inadequate infrastructure development, systemic supply chain inefficiencies, and market imperfections. Despite the persistence of these challenges, a new hope for improved sustainability and stability in the sector exists because of a growing trend towards more transparent supply chain and market relations, market differentiation, and the intentional adoption of “best practices” for sustainability.

Over the course of the past two decades the market for specialty coffees has grown at a significant pace, giving rise to important opportunities for producer diversification into value-added markets based upon specific quality characteristics. While the market for “commodity” or “mass market” coffees has stagnated, growth in the specialty market has created important new opportunities for small-scale family farmers. Markets for certified “sustainable coffees” have grown at an even faster pace, with many sustainability labels showing annual growth of more than 20% over the past several years.¹³ In addition to the potential for higher and more stable prices, participation in differentiated markets holds the promise of increased efficiency and market responsiveness—both core elements of building improved sustainability for the coffee sector. A key priority for international cooperation over the course of the next decade must, therefore, include strategies for expanding and tapping into such market trends. The renegotiation of the ICA presents a unique opportunity for deepening multilateral cooperation amongst such initiatives as well as cooperation between public- and private-sector efforts to build sustainable supply chains.

IV. Private Sector and Civil Society Approaches to Sustainability: An Important Step but not a Panacea

Over the past two decades, the private sector, NGOs, and consumers have responded to the sustainability challenges facing coffee producers through a variety of multi-stakeholder, market-based initiatives. Certification systems like Fair Trade, Organic, Utz Kapeh, and Rainforest Alliance have consistently recorded growth that far exceeds that of the overall coffee market.¹⁴ Evidence suggests that, to varying degrees, these initiatives have the potential to offer multiple benefits, including improvements in:

- Market information and communication along the supply chain¹⁵
- Overall supply chain efficiency¹⁶
- Capacity building and infrastructure development for producers¹⁷
- Environmental conditions related to production¹⁸
- Working conditions for workers¹⁹
- Economic returns for producers²⁰
- Farmer risk profile²¹
- More equitable supply chain participation²²

However, the growing diversity of initiatives has also given rise to new obstacles, costs, and uncertainties that have restricted full access by those most in need. Challenges to the effectiveness of supply chain initiatives as they move into mainstream markets include:



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- Growing uncertainty over the full costs and benefits of individual initiatives²³
- Duplication of transaction costs for producers²⁴
- Limited access to markets for disadvantaged producers²⁵
- Inability to compete in mainstream markets that externalize social and environmental costs of production²⁶
- Lack of sufficient savings, capital, and credit to make the transition to sustainable supply chains
- Insufficient infrastructure and resources to participate in the development and management of initiatives and their corresponding administrative processes²⁷

The difficulties such initiatives face represent a significant challenge to sustainable development at the production end of the supply chain. As a forum for debate and cooperation amongst policy makers and other stakeholders from both net coffee-importing and -exporting countries, the ICO offers a venue at which strategies to fill many of the gaps left by voluntary sustainable supply chain initiatives can be developed.

V. The Unique Role of the International Coffee Agreement: Leveraging Policy for Sustainable Development

Under the provisions of Article 52 of the 2001 International Coffee Agreement (ICA), the ICA is due to expire on September 30, 2007. In light of that fact, ICO members have begun debate on what the ICA will look like in the future.

From the negotiation of the first ICA in 1962 until recent times, member countries have used the Agreement to facilitate price stability and price retention, principally through the management of supply and demand on international coffee markets. The use of export quotas in ICAs prior to 1989 as a means of controlling supply (and thus price levels) provides the definitive, but not the only, example of the macroeconomic approach that has distinguished the role of the ICA to date.²⁸ While the economic strategies of the ICO have changed, the organisation's focus on the macro conditions of the market and its ability to credibly respond to the needs of market participants through multilateral cooperation make it particularly well-placed to deal with challenges faced by voluntary initiatives.

The Historical Role of the ICA in Sustainability

International commodity agreements, as a category of "international cooperation", were originally motivated in part by the desire "to maintain and develop natural resources of the world and protect them from unnecessary exhaustion."²⁹ The 2001 International Coffee Agreement is no exception. In addition to the general commitment under Art. 1(2) towards fair and remunerative prices (which has become increasingly difficult to achieve after the demise of the economic clauses of the ICA), Art. 1(6) and Art. 39 of the ICA Agreement explicitly commit members to the promotion of a "sustainable coffee economy".³⁰ Art. 40 commits members to the promotion of labour conditions consistent with international conventions.

Now More than Ever: The Continued Relevance of the ICO in Sustainability

The ICO represents the only dedicated forum for discussing coffee-related matters at the international level and must provide a focal point for international cooperation on the development of a sustainable coffee economy. The very fact that the ICO brings together net coffee-importing and -exporting countries for the development of shared global strategies represents a major opportunity



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for the design and implementation of an equitable and participatory trading system. With the coming into force of the 2001 ICA, member countries expanded the role of the ICO as a convening ground for cooperation at the global level to include the private sector through the establishment of the Private Sector Consultative Board ((PSCB) (Art. 22)). The provision of a formal forum for discussion, interaction, and cooperation, both amongst the private-sector players and between the private sector and policy makers, set a precedent that enhanced the ICO's ability to respond to key stakeholder needs, interests, and perspectives through a shared governance process. By continuing to provide forums for stakeholders, ICO members can significantly expand their ability to transform their stated commitment to sustainability into action.

VI. Recommendations

The negotiation of the next ICA presents a rare opportunity to fortify the underlying spirit of participatory governance embodied within the ICO to date. Below is a series of specific recommendations for expanding the reach of the organisation to non-governmental stakeholders, as well as for developing specific strategies toward the development of sustainable supply chains at the international level.

Recommendation 1: In an effort to build shared understanding and approaches to sustainability in the coffee sector at the global level, the International Coffee Organisation should establish a “Consultative Board on Sustainability” using ICO document WP Board 960/04 and the existing ICO Private Sector Consultative Board as points of reference.

Art. 39 of the current ICA commits members to give “due consideration to the sustainable management of coffee resources and processing bearing in mind the principles and objectives on sustainable development contained in Agenda 21.”³¹ Over the past two years, both the Executive Board and the Council of the ICO have dedicated an increasing amount of time to the discussion of ICO approaches to diverse sustainability initiatives. To facilitate action on this explicit commitment to sustainability, and in recognition of Agenda 21's call for widespread participation in the development of strategies for sustainability³², the ICA should establish a dedicated multi-stakeholder forum to provide strategic support and guidance for implementing sustainable practice throughout the coffee sector. Precedent for establishment of such a consultative body was established in the current ICA with the creation of the Private Sector Consultative Board.

In September 2004, the Executive Board considered the creation of a Sustainability Committee.³³ Document WP Board 960/04 outlines a multi-stakeholder structure that balances producer and consumer country interests while providing representation of major stakeholder groups, including:

- ICO delegates
- Small producer organisations
- NGOs
- Industry representatives

The uniquely participatory structure put forth under the proposal and its link to a Sustainable Coffee Forum would further expand the reach of the ICO's dialogue with non-governmental actors in the coffee sector while simultaneously enabling efficiency in the implementation of sustainable supply chain practices through public/private cooperation.



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Recommendation 2: In an effort to expand the reach of the Private Sector Consultative Board to smallholder producers, total exporting-country representation should be expanded from 8 to 12 with the addition of an exporting-country representative to each “coffee group” reserved specifically for smallholder producer organisations.

The PSCB currently provides the principal point of contact between the intergovernmental decision-making process and representatives of the private sector. Under its current makeup, the PSCB provides a critical voice for major industry interests. Yet while smallholder farmers (estimated to produce over 75% of the world’s coffee) are an integral component of the supply chain, their organisations are not given an opportunity to participate directly in PSCB discussion.

The PSCB provides a window for exchanging information, strategies, and views on coffee matters between industry actors and their governmental counterparts. Art. 22 (3) of the current ICA specifies that the PSCB shall be made up of 8 exporting-country representatives of the private sector and 8 importing-country representatives of the private sector.³⁴ The 8 exporting country representatives are further divided into groups of 2, each pair representing one of the 4 major coffee groups: Colombian Milds; Other Milds; Brazilian and Natural Arabicas, and Robustas. While not intended to shift the balance of voting rights, adding a third exporting-country representative to each coffee group reserved specifically for smallholder producer organisations would help ensure comprehensive communication within private-sector supply chains and thus fulfil the objectives of the PSCB more effectively.³⁵

Recommendation 3: Following its mandate as the principal body for generating and disseminating global statistics for the coffee sector, the International Coffee Organisation should establish a web-based “coffee observatory” information platform that provides aggregate data of price levels for differentiated coffees on the basis of geography, “sustainability”, and other quality-related conditions of production.

According to Art. 1(5) of the ICA, one of the central objectives of the ICO is “to act as a centre for and promote the collection, dissemination and publication of economic and technical information, statistics and studies, as well as research and development, in coffee matters”.³⁶ To date, with the exception of specific, targeted studies, the ICO has focused its regular statistical analysis on the four major coffee-quality groups. However, as the coffee market becomes increasingly differentiated and significant market growth largely focuses on the specialty and sustainability segments, the provision of regular up-to-date statistics and trends in prices and production in *differentiated* coffee markets is becoming increasingly important to the development of “sustainable” production strategies for farmers and producer countries alike. Accurate pricing information on differentiated coffees is also key to long-term strategies for ensuring that the costs of production are internalized within the market.

Many of the data collection and analytical systems at the ICO were created to serve the ICO’s original focus on coffee as a commodity and are thus not equipped to deal with today’s growing market for differentiated coffees. While the ICO does collect export data on organic coffees, the ICO’s statistical systems must be updated to collect both trade and price data for organic and other certified-sustainable coffees. Furthermore, the ICO’s statistical and research capacity should be developed such that the organisation can disseminate analyses that examine at which points in the supply chain benefits from sustainable coffees are being realized. Use of the internet to disseminate this information, along with capacity-building efforts coordinated amongst member states and donor agencies, will allow net coffee-exporting countries and smallholder organisations to better understand the specific benefits that they can realize from differentiated markets and how, if appropriate, they can enter those markets.



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Recommendation 4: In order to promote sustainable participation in the market by smallholder producers, the ICO should work with member governments, the private sector, and civil society groups to a) stimulate access to credit for small producer organisations, b) establish risk-management facilities and tools suitable for use by under-resourced small farmers, and c) organize and manage a “clearinghouse” to disseminate information on technical assistance projects implemented in member countries. The ICO should also establish a voluntary “Partnership Fund for Sustainability” dedicated to facilitating smallholder participation in the Sustainability and Private Sector Consultative Boards, as well as the implementation of better management and marketing practices, diversification, and strengthening producer organisations.

Rapidly changing market conditions require timely, targeted, and efficient technical assistance interventions. With the disappearance of important, locally based institutions and resources for extension and other forms of technical assistance, there is a growing need for the international community to formalize commitments for the provision of assistance specifically designed to fill the gaps. The ICO may not be the appropriate institution to house assistance programs. However, it can promote sustainable participation in the market by smallholder producers by facilitating targeted dialogue between ICO members and donors, research, and active support of finance, risk-management, and technical assistance networks.

Furthermore, following precedents established under the 1968 ICA (diversification fund), 1994 ICCA (environment fund), and 2005 ITTA (Bali Partnership Fund)³⁷, ICO members should establish an efficient, coordinated approach to funding sustainable supply chain management through the establishment of a “Partnership Fund for Sustainability”. Following the needs-based approach to sustainable development called for under Agenda 21, the Fund would facilitate smallholder participation in the Sustainability and Private Sector Consultative Boards, as well as in the implementation of better management and marketing practices, diversification, and strengthening of producer organisations. Funds for such an initiative could be raised through private-sector or public-sector contributions, or a combination of the two.

VII. Conclusion

The growth in recognition of the importance of sustainability in coffee production amongst government officials, NGOs, the private sector, and consumers has put the coffee sector at a crossroads. While the price of coffee has improved since its 2001 crash, ICO member states must recognize that smallholder farmers and farmworkers still lack the resources to take advantage of improved market conditions and remain vulnerable to the boom and bust cycles of the market. Far from a time for complacency, the current debate on the future of the ICA is an opportunity to affect urgently needed change. By adopting the recommendations outlined in this paper, the ICO would take important steps to create space for smallholder, farmworker, and civil society voices alongside those of the private sector. It would also create mechanisms to improve dissemination of market information and promote support for credit, risk-management, and technical assistance programs for smallholders. By incorporating these measures into the ICA, the ICO would act as a catalyst for reforms to the coffee sector that would promote sustainability and have the potential to improve the livelihoods of millions of small-scale farmers and farmworkers around the world.



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VIII. Annex 1: The *Carta de Salvador* – Salvador Declaration

Salvador da Bahia, 23rd of September, 2005.

Ladies and Gentlemen
Participants in the II World Coffee Conference

We—small-scale coffee producers, rural workers, members of producer cooperatives, labour unions, NGOs and academics—travelled thousands of kilometres from four continents to Salvador in order to represent millions of people struggling every day to survive. We are demanding a truly sustainable coffee sector.

During the past three days we have shared our challenges, experiences, proposals and dreams. We became keenly aware that we are confronted with many of the same obstacles in our different countries. We also reflected deeply on the recent changes in production and trade at the international level.

We want to remind you that the coffee crisis is not over. After the most difficult period passed, many stakeholders are focused on the production, processing and trade of coffee. We want to stress that our problems continue without a solution.

For a truly sustainable coffee sector, all who take part in coffee production must share its wealth: small-scale producers, permanent and seasonal rural workers, industry and retail workers.

Many say that the solutions to the crisis are only associated with methods of production, including increased investment in substitutes for local coffee varieties, use of toxic fertilizers and pesticides, and mechanization—all aimed at greater productivity. This vision, which focuses on trading and production, is prohibitively expensive for millions of small-scale farmers. It punishes rural workers and has negative impacts on the environment. It also allows for the consolidation of production and marketing by a small group of companies that do not practise social responsibility but make decisions that impact millions of people while they reap the lion's share of the benefits of the trade. This vision is not sustainable.

The challenges associated with coffee are similar to those confronting other commodities like sugar, cotton, and other crops. These sectors are also heavily influenced by the concentration of resources and wealth, the effects of which are aggravated by distortions from speculative investments.

Real sustainability of the coffee sector should not be viewed through an economic lens alone but must include ethical and political perspectives.

From an ethical perspective, the citizenship rights of people who participate in wealth generation must be guaranteed. Those rights are: stability of prices; recognition of efforts to protect the rural landscape and biological diversity by improving cultivation, harvest and post-harvesting practices; and recognition of the basic rights of rural workers, including the fundamental rights of association and collective bargaining, particularly for seasonal rural workers who face the worst working and living conditions.

From a political perspective, it is essential that governments agree to and implement public policies that guarantee the rights of coffee producers and rural workers. It should be possible to develop a sustainable model based on food security and sovereignty.



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In conclusion, we expect the World Coffee Conference to acknowledge our key concerns:

International Coffee Agreement (ICA): we propose that the renegotiation of the ICA incorporates the issue of sustainability from the perspective of all actors involved in the coffee chain and sanction space for direct political representation by small-scale farmers and rural workers organisations.

Support for Sustainable Development: we propose that the ICO coordinate development projects for the coffee sector. Governments must allocate resources for the improvement of the coffee sector, principally in developing countries. These programs must ensure that family farmers are the direct recipients of the support.

Support by producer countries for coffee sector: we propose that producer country governments commit themselves to implementing programs that target the coffee sector, specifically programs benefiting small-scale farmers and rural workers that depend on public policy the most. It is crucial to guarantee debt refinancing, availability of affordable credit for working capital and long term capital investment, support of capacity building programs for small scale farmers and rural workers, access to market information, and promotion of small-scale farmer access to markets. Governments should also ratify, publicise and effectively implement all relevant ILO Conventions, particularly Convention 184. Finally, we propose that producer countries engage in discussion and policy coordination that seek to establish the basis for fair trade between nations.

We commit ourselves to continuing this dialogue, to presenting the challenges we face, and to proposing solutions to the coffee crisis.

CONTAG/FETAGS, Brazil
Karnataka Growers Federation, India
Oromia Cooperative Union, Ethiopia
Sidamo Cooperative Union, Ethiopia
Junta Nacional del Café, Peru
FEDECOCAGUA, Guatemala
Foro del Café, El Salvador

Frente Solidario, Central America
Global Alliance on Commodities and Coffee -
GLACC
União Internacional dos Trabalhadores da
Alimentação e Agricultura - UITA/REL
Koffie Coalitie - Netherlands
Oxfam International



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IX. Annex 2: Proposal for an ICO Sustainability Committee, ICO Document WP Board 960/04

This document was originally drawn up on the basis of stakeholder consultations following an internal document circulated by the ICO Secretariat for the establishment of a Sustainability Committee. An earlier version was presented to the Council in September, 2004, by the Sustainable Coffee Partnership.³⁸ This version was revised April 22, 2005, on the basis of feedback from the Executive Board of the ICO.

Revised Proposal for an ICO Sustainability Committee

Background

1. A key objective of the International Coffee Organisation (ICO) is to develop a sustainable coffee economy. Article 39 of the International Coffee Agreement notes the Organisation's specific commitment to advancing the Rio principles for sustainable development and the Agenda 21 process.
2. Alongside the ICO's efforts to promote the development of sustainable development in the coffee sector, there has been a proliferation of private and public voluntary sustainability initiatives over the past two decades. The growth and multiplication of these initiatives promise to have growing impacts on producers and other stakeholders along the supply chain around the world and therefore deserve concerted attention at the level of the ICO.
3. As the main organisation for coordination, information dissemination, and policy development in the coffee sector, the ICO has a central role to play in coordinating the development, guidance, and promotion of sustainability efforts throughout the sector. It is therefore proposed that the ICO establish a Sustainability Committee in order to formalize understanding, collaboration, and coordination amongst existing initiatives as well as provide advice and guidance to the ICO and the broader policy community to ensure equity and effectiveness throughout the growing world of voluntary initiatives.

Action

The Executive Board is requested to consider this proposal.

1. Objectives of the Committee

The Committee would have the following general objectives:

- To promote the reduction of market imperfections such that coffee producers are able to achieve a basic level of economic sustainability.
- To promote employment relationships which comply with core conventions of the International Labour Organisation (ILO) and local law.
- To promote environmentally sustainable production practices.

The Committee should also have the following more specific objectives:

- To provide an equitable and transparent multi-stakeholder forum for guiding policy development and information exchange towards a sustainable coffee economy at the global level.
- To develop coordinated strategies at the global level for promoting sustainable production and trade across the coffee sector.



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- To build synergies and enhance efficiency in collaboration across stakeholders and sustainability initiatives.
- To ensure that the greatest amount of producers are paid, at a minimum, a price/wage that covers basic production, living and environmental costs.

2. Structural Outline of the Committee

In order to ensure the most equitable representation while retaining an efficient and workable group of stakeholder representatives, the following structure is proposed:

Group	Representation
1. ICO Executive Director	1, the ED and his designated staff representatives including the Management Unit
2. Elected Chairperson and Vice-Chairperson ³⁹	1 + 1 person elected by the Committee to chair the Committee
3. Exporting Members of the ICO	2 + 2 alternates
4. Importing Members of the ICO	2 + 2 alternates
5. Coffee Industry (Producing and Consuming)	2 + 2 alternates
6. Coffee Trade (Producing and Consuming)	2 + 2 alternates
7. NGOs	2 + 2 alternates
8. Small producer organisations	2 + 2 alternates
9. Inter-governmental organisations	2 + 2 alternates

Committee members would be selected through a process of nominations/elections drawing from existing ICO structures and an annual Sustainable Coffee Forum organized under the auspices of the Sustainable Coffee Partnership/ICO Sustainability Committee.

- The Chairperson and Vice-chairperson (Group 2) would be elected by the other Committee members.
- ICO Members (Groups 3 and 4) would be designated by the Council at its regular sessions.
- Representatives of industry (Groups 5 and 6) would be proposed by the ICO's Private Sector Consultative Board.
- Representatives from civil society and inter-governmental organisations (Groups 7-9) would be elected at the annual Sustainable Coffee Forum, a multi-stakeholder event.

Representatives and their alternates would be subject to the same selection processes and would serve for a 2 year term, with terms staggered such that no more than half of the members would be elected in any given year.

3. General Functions of the Committee

The Sustainability Committee would act in an advisory and consultative capacity to the ICO and make recommendations to the Council in its areas of concern. The Committee would also provide a forum for developing policy and project guidance towards sustainability in the coffee sector at the global level. Examples of some of the kinds of activities which could be undertaken by the Committee:



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- The Committee could develop strategic policy positions on sustainability issues for consideration by the Council (and others).
- The Committee could set basic standards for transparency and information exchange across existing voluntary initiatives.
- The Committee could identify a core of focal areas for project development to most effectively support sustainability in the coffee sector (capacity building projects).

Under normal circumstances, the Committee would not be directly implicated in the implementation of projects but rather provide guidance in project development. Actual project implementation would be left to individual parties, expert/stakeholder working groups, and policy bodies linked to the Committee. Although identification of formal strategic priorities would need to be made by the Committee itself, Appendix 1 [of the original Document WP Board 960/04] lists strategic priorities identified within the context of the Sustainable Coffee Partnership that *may* be appropriate to the Committee as well.

The Committee would meet between 2 and 4 times a year to coincide with other ICO meetings with potentially more frequent meetings for specialized sub-committees, although these would be largely conducted using electronic media.

4. Structural Relationship of the Committee with Existing Initiatives

In order to ensure maximum economies of scale and efficiency the Committee and its activities need to be formally integrated with existing global efforts. A possible organisational format for integrating the ICO Sustainability Committee with existing global efforts is given below; taking note of the following constraints:

- The functions of the Committee will need to be supported by a Management Unit/ Secretariat. The Committee's specific tasks and number of staff in the Management Unit will depend on the final structural relation between the Committee and the existing global multi-stakeholder platforms.
- The organisation of the proposed annual Sustainable Coffee Forum needs to be designed in direct coordination with the Sustainability Committee in order to ensure appropriate organisation to elect Committee members.
- It is expected that the Committee would work in close cooperation with the Sustainable Coffee Partnership and its respective working group activities.⁴⁰ Technical sub-committees for the development and implementation of specific projects and project themes related to capacity building for standards compliance, research, financing, and information exchange activities will be required at one level or another.
- Although opportunities for convergence between Committee activities and the Common Code should be maximized, the process of standards administration and implementation under the Common Code will remain independent from the Committee.



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5. Funding Requirements

The funding requirements for the Committee would vary depending on its level of activity and mandate. The following options are possible based on the three proposed structures:

- Funding for Sustainability Committee meetings alone: estimated cost US\$25,000 per annum.
- Funding for Committee meetings and Partnership Management Unit: estimated cost US\$155,000 per annum.
- Funding for annual Sustainable Coffee Forum (US\$75,000 per annum).

The estimate for funding the Sustainability Committee envisages one professional to service the Partnership and one Secretary plus travel, communications, computers, and furniture, as well as travel for producer and NGO participants to Committee meetings. Such staff could of course eventually also be based at the ICO. The Sustainable Coffee Forum estimate envisages financing of travel and accommodation for 25-30 producer/NGO representatives as well as 3 months of support staff with the Forum being hosted by the ICO (or another major coffee convention). Costs would presumably be higher if the Management Unit(s) and Forum were housed outside the ICO.

Additional resources would be required to undertake specific projects implemented under the Committee and its related Management Units.

Depending on the format being considered, the funds for the Committee could be raised by a combination of: direct donor country contributions; corporate contributions; revenues from the Sustainable Coffee Forum and/or revenues generated by project activities developed through the Committee.



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X. Annex 3: Recommended Structure for an Expanded Private Sector Consultative Board

The following illustrates the recommended structure for an expanded Private Sector Consultative Board (PSCB). The diagram shows 2005 regular and alternate members and adds a smallholder producer organisation representative for each sub-category of exporting member.

PSCB Members, 2005 (alternates in italics)	
<p>EXPORTING MEMBERS</p> <p>Colombian Milds</p> <ul style="list-style-type: none"> • Asociación de Exportadores de Café de Colombia (ASOEXPORT) • <i>Sociedad Exportadora de Café de las Cooperativas de Caficultores (EXPOCAFE)</i> • <i>Federación Nacional de Cafeteros de Colombia</i> • Eastern African Fine Coffees Association (EAFCA) • SMALLHOLDER PRODUCER ORGANISATION REPRESENTATIVE <p>Other Milds</p> <ul style="list-style-type: none"> • Confederación Mexicana de Productores de Café • <i>Organización Centroamericana de Exportadores de Café (ORCECA)</i> • Asociación Nacional del Café (ANACAFÉ) • <i>Coffee Exporters Association of India</i> • SMALLHOLDER PRODUCER ORGANISATION REPRESENTATIVE <p>Brazilian and other Natural Arabicas</p> <ul style="list-style-type: none"> • Conselho de Exportadores de Café Verde do Brasil (CECAFÉ) • <i>Associação Brasileira da Indústria de Café Solúvel (ABICS)</i> • <i>Associação Brasileira da Indústria de Café (ABIC)</i> • Conselho Nacional do Café (CNC) • <i>Confederação da Agricultura e Pecuária do Brasil (CNA)</i> • SMALLHOLDER PRODUCER ORGANISATION REPRESENTATIVE <p>Robustas</p> <ul style="list-style-type: none"> • Association of Indonesian Coffee Exporters (AEKI) • <i>Uganda Coffee Trade Federation (UCTF)</i> • Vietnam Coffee-Cocoa Association (VICOFA) • <i>Cocoa and Coffee Interprofessional Board (CICC)</i> • SMALLHOLDER PRODUCER ORGANISATION REPRESENTATIVE 	<p>IMPORTING MEMBERS</p> <ul style="list-style-type: none"> • All Japan Coffee Association (AJCA) • Association des Fabricants de Café Soluble (AFCASOLE)/ <i>European Federation of Associations of Coffee Roasters (EUCA)</i> • <i>Association des Fabricants de Café Soluble (AFCASOLE)/ European Federation of Associations of Coffee Roasters (EUCA)</i> • Committee of the European Coffee Associations (CECA) • <i>Committee of the European Coffee Associations (CECA)</i> • European Coffee Federation (ECF) • <i>European Coffee Federation (ECF)</i> • Institute for Scientific Information on Coffee (ISIC) • <i>Institute for Scientific Information on Coffee (ISIC)</i> • National Coffee Association of U.S.A. (NCA) • <i>Coffee Association of Canada</i> • Specialty Coffee Association of America (SCAA) • Speciality Coffee Association of Europe (SCAE)



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XI. Annex 4: The ITTA Bali Partnership Fund as a Model for a “Partnership Fund for Sustainability”

The International Tropical Timber Agreement (ITTA) 2006 establishes the Bali Partnership Fund, a voluntary fund that will support efforts to increase sustainability in forest production. The Bali Fund can serve as a model for a Partnership Fund for Sustainability at the ICO, proposed to facilitate smallholder participation in the Sustainability and Private Sector Consultative Boards, as well as the implementation of better management and marketing practices, diversification, and strengthening of producer organisations. Like the Bali Fund, the ICO Partnership Fund for Sustainability could raise funds from members, as well as from the private sector and other sources. The text from the ITTA 2006 establishing the Bali Partnership Fund follows:

Article 21⁴¹—THE BALI PARTNERSHIP FUND

1. A Fund for sustainable management of tropical timber producing forests is hereby established to assist producer members to make the investments necessary to achieve the objective of article 1 (d) of this Agreement.
2. The Fund shall be constituted by:
 - (a) Contributions from donor members;
 - (b) Fifty per cent of income earned as a result of activities related to the Special Account;
 - (c) Resources from other private and public sources which the Organisation may accept consistent with its financial rules; and
 - (d) Other sources approved by the Council.
3. Resources of the Fund shall be allocated by the Council only for pre-projects and projects for the purpose set out in paragraph 1 of this article and that have been approved in accordance with articles 24 and 25.
4. In allocating resources of the Fund, the Council shall establish criteria and priorities for use of the Fund, taking into account:
 - (a) The needs of members for assistance in achieving exports of tropical timber and timber products from sustainably managed sources;
 - (b) The needs of members to establish and manage significant conservation programmes in timber producing forests; and
 - (c) The needs of members to implement sustainable forest management programmes.
5. The Executive Director shall provide assistance in the development of project proposals in accordance with article 25 and endeavour to seek, on such terms and conditions as the Council may decide, adequate and assured finance for projects approved by the Council.
6. Members shall strive to replenish the Bali Partnership Fund to an adequate level to further the objectives of the Fund.
7. The Council shall examine at regular intervals the adequacy of the resources available to the Fund and endeavour to obtain additional resources needed by producer members to achieve the purpose of the Fund.



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¹ See annex 1.

² OXFAM GB, *The Coffee Market: A Background Study* (OXFAM, 2001), at 1.

³ International Trade Centre, *Coffee: An Exporter's Guide*. (ITC, 2002), at 3.

⁴ Access to finance has long been recognized as a key element of sustainable production strategies for coffee producers. Finance can play a critical role in stabilizing farmers' cash flow as well as providing investment capital for diversification. See OXFAM, *The Crisis Continues* (2005) at p. 10-13.

⁵ Although producer organisations can provide an important avenue for democratic, equitable representation and infrastructure development, the relative isolation of many small coffee farmers often places prohibitively high transaction costs on effective participation in such organisations.

⁶ A survey of coffee plantations in Guatemala, for example, revealed that none paid the country's minimum wage and that a majority of them did not even pay half the minimum wage. Bart Ensing, 'The viability of a code of conduct in the coffee sector in Guatemala', Fair Trade Organizatie July 2000; The Guatemalan government regards minimum wage as being sufficient to cover 40% of basic needs. Meanwhile, child labour is reported to be widely used on plantations in some countries. In Kenya, for example, it is estimated that 30% of the coffee pickers serving plantations are below the age of 15. See OXFAM, *supra* note 1 at 11-12. Housing conditions on such plantations have also been reported to be below national requirements. GTZ, *Working and Living Conditions in Large Scale Coffee Production in Latin America* accessed at [http://www.die-gdi.de/DIE_Homepage.nsf/ViewAttach/51EFF03B641F9792C1256C2F0029A34E/\\$File/Summary-e2.pdf?OpenElement](http://www.die-gdi.de/DIE_Homepage.nsf/ViewAttach/51EFF03B641F9792C1256C2F0029A34E/$File/Summary-e2.pdf?OpenElement).

⁷ USAID, Remarks by Adolfo A. Franco, December 31, 2002. http://www.usaid.gov/press/spe_test/speeches/2002/sp311202.html

⁸ Different forms of coffee production form a gradient between sun- and shade-grown systems. At least five general types of coffee production systems have been identified: traditional; traditional poly-culture; commercial poly-culture; shaded monoculture, and sun. The 'traditional' and 'traditional poly-culture' systems utilize the original forest canopy, while the commercial and shade monoculture varieties utilize commercially introduced shade cover. See Merle D. Faminow and Eloise Ariza Rodriguez, *Bio-diversity of Flora and Fauna in Shaded Coffee Systems*. (CEC, 2001).

⁹ The average rate of conversion to shade monoculture and sun coffees for Northern Latin America as a whole has been estimated to be 40%. In Latin America a 50% reduction in avian biodiversity has been observed under sun growing conditions. In addition to aggravating soil erosion, reduced forestation associated with sun and monoculture production reduces overall carbon sequestration. The shift from "diverse shade" systems to "monoculture shade" systems has been estimated to have reduced carbon sequestration between 30% and 50% in Latin America. Rice, R. and J. Ward, *Coffee, Conservation, and Commerce in the Western Hemisphere*. (Natural Resources Defense Council and Smithsonian Migratory Bird Center. Washington, DC, 1996.) The difference in carbon sequestration capacities between monoculture shade-grown coffee and forest shade-grown coffee has been estimated to be more than two-fold. PROCAFE, *Differentiating Salvadorian Coffee*. Paper presented at the World Bank, October 2001, cited in Kristina Sorby, Background paper to World Bank Agricultural Technology Note 30, "Toward more sustainable coffee" (World Bank, 2002).

¹⁰ Research commissioned by UNCTAD on the environmental effects of coffee production in the Ivory Coast concludes that coffee has played a major role in reducing the country's forested land from 16 million to 3 million hectares. Denis Ouohle Seudieu, *L'impact de la production et de la transformation du café, du cacao et du riz sur l'environnement en cote d'ivoire*. (UNCTAD, 1993) UNCTAD/COM/24.

¹¹ Coffee is currently grown in 13 of the world's 25 biodiversity "hot spots"—areas of high biodiversity importance and vulnerability. Halweil B. (2002) "Why Your Daily Fix Can Fix More than Your Head." *World Watch* Vol. 15. No.3 May/June 2002.

¹² Under-regulated agrochemical use also threatens farmers and other rural residents with exposure to toxic substances in water supplies. In a 1987 case, more than 200 people became sick from drinking water contaminated with agricultural pesticides and fertilizers in the western Mexican state of Jalisco. Ivan Restrepo, 1992 *Los Plaguicidas en México* (México, D.F.:Comisión Nacional de Derechos Humanos), at 126-127, 130. Meanwhile, the use of nitrogen fertilizers in Costa Rica has been linked with unsafe levels of groundwater pollution. Levels in excess of World Health Organisation acceptable levels have been documented in Costa Rica. Olman Segura B. and Jenny Reynolds, "Environmental Impact of Coffee Production and Processing in El Salvador and Costa Rica," (Geneva: UN Conference on Trade and Environment, UNCTAD/COM/20, August 27, 1993), at 15-16.

¹³ Giovannucci, *The State of Sustainable Coffee: A Study of 12 Major Markets* (IISD, World Bank, ICO—2003)

¹⁴ Giovannucci. *Supra* note 13 at 60- 69. Fair Trade, Organic, Utz Kapeh, and Rainforest Alliance are sustainable coffee certification systems developed to add value to coffee through product differentiation. In doing so, these systems aim to create incentives for sustainable production.

¹⁵ A study commissioned by DFID on the impacts of Fair Trade concluded that one of the most important impacts of Fair Trade for producers was the role of the Fair Trade supply chain in providing up-to-date market information. See Oxford Policy Management, *Fair Trade: Overview, Impacts, Challenges*. (2001) at 27.

¹⁶ Sustainability initiatives, through their traceability, monitoring, and enforcement requirements, require highly organised supply chains. The development of the necessary information structure can reduce supply chain inefficiencies.

¹⁷ On the one hand, the fact that producers require certain basic infrastructure in order to access "sustainable markets" operates as an incentive to organisation. Recognising this need, most sustainability initiatives complement their "administrative" requirements with efforts to facilitate partnerships for providing technical assistance and infrastructure



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development. For example, The Green Development Foundation, Solidaridad, and Sara Lee Foundation have formed the "Coffee Support Network" designed to support farmer adoption of Utz Kapeh guidelines.

¹⁸ Although environmental practices differ across initiatives, typical compliance requirements include: shade coverage, water conservation, forest conservation, and rational use or elimination of synthetic chemicals.

¹⁹ Core ILO standards form the basis for many of the sustainability standards currently operational in the coffee sector.

²⁰ The Centro de Investigacion des Mercados Sostenibles (CIMS) estimates that Latin American coffee producers received premiums between \$.05 and \$.60 per pound for coffees sold to sustainable markets. See Andres Villalobos, *Prices and Premiums for Certified Coffees* (CIMS, 2005). Actual premiums vary significantly between initiatives and market prices. Higher returns are also available through increased productive efficiency.

²¹ Some systems, such as Starbucks CAFE Practices, include options for "preferential supplier status" based on the adoption of preferred practices. Due to traceability and trust requirements for effective implementation, there is a stronger tendency for producers to deal directly with buyers and roasters through long-term relationships. Socially and environmentally responsible practices also reduce social and environmental instability with concordant impacts on economic stability.

²² Most initiatives are built on governance structures that operate independent of traditional supply chain decision making (eg, where key nodes drive supply chain activities) and, as such, can provide unique opportunities for economically disadvantaged actors to have more direct input in supply chain decision making. Accessing this opportunity is often difficult for producers who lack strong organisational representation and resources (see below).

²³ At present there is very little objective research assessing the costs and benefits of applying different systems.

²⁴ Each sustainability system entails certification and monitoring costs in addition to regular production costs. The fact that different systems have different administrative requirements can render multiple certifications unaffordable for many producers.

²⁵ Membership in a well-organized producer group is a virtual prerequisite for participation in sustainable supply chain initiatives. Producers who are not organized may be systemically excluded from such systems.

²⁶ Although consumers are willing to pay some degree of premium for "sustainable" practices, there is no indication that consumer willingness matches actual costs. Economic theory predicts that consumers will undervalue public goods through rational economic decision making in imperfect markets. See, for example, P. A. Samuelson, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, 36, 387-9. See also R. Musgrave, *The Theory of Public Finance—A Study in Public Economy*, (New York: McGraw Hill, 1959) at 8.

²⁷ Effective participation in both international markets and policy discussions for sustainability requires significant administrative resources that are not included in the price mechanism.

²⁸ A more recent example of the ICO's macroeconomic approach is provided via Resolutions 407 and 420, which establish a quality standard for international export with the intent of reducing overall supply and improving demand, thus raising prices of coffee on the international market.

²⁹ Chapter 14 of the Havana Charter in *Restoration of World Trade*, *supra* note 22 at 525. During the 1990s there was some explicit interest in the possibility of "International Commodity-Related Environmental Agreements" (ICREAs) as a means of joining the macroeconomic and microeconomic approaches to sustainable development. Following the integrated approach to sustainable development, it may be useful to conceptualize International Commodity Agreements as "Sustainable Commodity Agreements"—that is, agreements that take the Rio Principles and Declaration as the overall guide to international cooperation in a given commodity sector. This approach forms the context of our analysis below.

³⁰ Art. 1(6) of the ICA 2001 specifies that one of the objectives of the agreement is "to encourage members to develop a sustainable coffee economy". Art. 39 of the ICA 2001 states that: "Members shall give due consideration to the sustainable management of coffee resources and processing, bearing in mind the principles and objectives on sustainable development contained in Agenda 21 agreed at the United Nations Conference on Environment and Development, held in Rio de Janeiro in 1992." ICA, 2001.

³¹ Art. 39, ICA 2001. Agenda 21 was adopted by Governments at the United Nations Conference on Environment and Development in Rio de Janeiro, Brazil, in 1992. Agenda 21 is a plan of action that sets out how world nations could achieve sustainable development by the 21st century.

³² Paragraphs 23.1 and 23.2 of Agenda 21 not only emphasize the need for participatory governance for ensuring sustainable development but also "the need for *new forms* of participation." UNCED, *Report of the United Nations Conference on Environment and Development, Annex II—Agenda 21 A/CONF.151/26* Aug. 12, 1992.

³³ *Proposal for an ICO Sustainability Committee*, WP Board 960/04 (September 17th, 2004). See annex 2 for an updated version of that proposal.

³⁴ Art. 22, ICA 2001.

³⁵ See annex 3 for a graphic representation of this proposal based on 2005 PSCB membership.

³⁶ Art. 1(5), ICA 2001. The ICO's role as information generator and disseminator is also explicitly outlined in Art. 1(4) and Art. 29 of the Agreement.

³⁷ UNCTAD, *Preparation of a Successor Agreement to the International Tropical Timber Agreement*, 1994 TD/IMBER.3L.6 (October 5th, 2005). See annex 4 for the ITTA text describing the Bali Partnership Fund.



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³⁸ The original document, *WP Board 960/04*, is available at <http://lists.iisd.ca:81/read/attachment/23056/1/ICO%20Sustainability%20Committee%20Proposal.pdf>.

³⁹ The terms of reference for the Chairperson could specify a preference for Chairpersons coming from regions not otherwise represented. The proposed structure is provided solely as a basis for discussion. The actual structure of such a committee would, of course, be subject to ICO Council discussion and approval.

⁴⁰ One option might even be to subsume the SCP under the proposed Committee.

⁴¹ The full draft version of the International Tropical Timber Agreement is available at <http://www.unctad.org/Templates/meeting.asp?intItemID=2068&lang=1&m=11153&info=doc>.

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