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BUSINESS BUILT ON RELATIONSHIP AND MUTUAL BENEFIT: THE STORY OF SUSTAINABLE HARVEST

When we have a conversation with farmers and hear firsthand that they have access to the tools they need, that their coffee is of an optimal quality, and that they feel empowered as critical members of the supply chain, we know we have succeeded in making a positive impact.

— David Griswold, Founder and CEO, Sustainable Harvest

On the morning of Friday, January 20th, 2017, as Donald J. Trump was inaugurated as the 45th President of the United States, David Griswold sat in his Portland office wondering how the policies of the new administration would impact his work going forward. Griswold was the visionary founder and CEO of Sustainable Harvest Coffee Importers. He and his small team had pioneered the "relationship coffee" model, bringing transparency to the coffee supply chain and building authentic long-term relationships directly with coffee growers. Over the course of twenty years, they'd helped hundreds of thousands of coffee farmers boost their incomes and improve the quality of life for their families and communities through increased knowledge, engagement in the coffee supply chain, and adoption of healthier, more sustainable growing practices -- all while importing consistently high-quality coffee that consumers loved. Despite these tremendous advances, Griswold was not about to sit back and rest on his laurels. Though many specialty coffee companies had followed Sustainable Harvest's lead and embraced the relationship coffee model, the bulk of coffee consumed worldwide was still grown and sourced in unsustainable ways. On top of this, harsher growing conditions, pest and disease outbreaks and lower yields - all linked to climate change - now posed an increasing and unprecedented threat, especially for the millions of smallholder farmers around the globe who depended on coffee for their livelihood. As Griswold looked to the months ahead, he thought hard about what Sustainable Harvest should do to keep driving the transformation of the industry.

The Early Days: Griswold's Story

Griswold got his start in the coffee industry in 1989, while volunteering in Mexico with the National Coordinating Body for Coffee Farmer Cooperatives, a small organization working to

Shelley Ratay and Professor Julia Novy-Hildesley prepared this Change.X case for the Change Leadership for Sustainability program at Stanford University's School of Earth, Energy and Environmental Sciences. The case is intended to promote class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

provide assistance to family farmers. That year, as the Berlin Wall came down and signaled the end of the Cold War, ripple effects were felt around the world, even in the remote coffee growing regions of Mexico. For decades, farmers throughout the world's coffee growing regions had relied on the International Coffee Organization (ICO) to provide some protection from market volatility, as member nations adhered to coffee quotas that created price stability for producers. Coffee plants are highly sensitive to weather and other growing conditions, making the commodity particularly susceptible to boom-bust cycles and price fluctuations. From the 1960s to the late 1980s, coffee prices were regulated by the International Coffee Agreement between the major consumer and producer countries. Coffee prices ranged between $1.10 and $1.50 per pound for several decades. However, once the spread of communist influence throughout Latin America was no longer perceived to be a threat, the United States withdrew from the ICO quota system and stopped enforcing coffee import restrictions. As the quota system broke down, the coffee stocks that had been held back to protect the market prices suddenly flooded the market and coffee prices dropped sharply, leaving many smallholder coffee-farming communities in dire straits.[1]

Other major economic changes were underway in Mexico that further jeopardized coffee farmers' ability to sell their crops. Carlos Salinas, who was President at the time, had begun dismantling and privatizing government entities such as the Mexican Coffee Institute (INMECAFE), upon which hundreds of thousands of small-scale coffee farmers had long relied for technical, financial and marketing assistance. As Griswold explained, "With no access to potential buyers, these farmers were at the mercy of intermediaries who perpetuated an opaque system, so as to keep their own profits high."[2]

It was in this context that Griswold received a visit one fall afternoon from a farmer named Pedro. Handing Griswold a plastic bag of coffee, Pedro introduced himself. "I have come from a pueblo in the state of Nayarit," he explained, "on behalf of 40 families who grow coffee. It is very good coffee. Can you help us find a way to sell our coffee?"[3] Griswold noticed that the coffee beans Pedro had brought were still coated in their natural parchment. Even as a relative novice in the industry, Griswold knew that Pedro couldn't get his coffee to market in this condition. Prospective buyers in North America and Europe would insist on receiving a sample of the product, and they would expect it in the form of green coffee beans, with the husks removed. In that moment, Griswold was struck by the realization that Pedro, and likely thousands of farmers just like him, had little knowledge of what happened to the coffee they grew after it left their farms. Their lack of access to key information left them vulnerable, and their livelihoods were at stake.

"Looking at Pedro," Griswold recalled, "I felt the enormity of the challenge he faced. Not only did farmers like Pedro need access to markets that would pay them a fair price for their coffee; they also needed a significant amount of training and education to understand and succeed in the global export and sale of their coffee. Pedro was just one farmer who happened to come to my office. There were hundreds of thousands of other men and women like Pedro, in Mexico and the

[1] Colleen Haight, "The Problem with Fair Trade Coffee," *Stanford Social Innovation Review*, Summer 2011.
[2] Sustainable Harvest, "David's Story: How we came to be Sustainable Harvest," www.sustainableharvest.com/daves-story/ (February 17, 2017).
[3] Ibid.

other coffee-growing countries around the world, who depended on coffee for their livelihood but had no idea how to sell it."[4]

Griswold had long been contemplating what to do next with his career, knowing that he wanted, in some way, to make a difference in the world. With Pedro's visit, his path grew clearer. Griswold didn't yet know *how* he would help Pedro and the many farmers like him find a sustainable market for their coffee, but he made up his mind to figure it out.[5]

Griswold believed that the traditional coffee market operated in an opaque manner that kept smallholder farmers from understanding how to add value to their work. For coffee growers there was no clear guidance or trainings on how to operate in a global industry, and the odds were clearly in the buyers' favor. What farmers needed were leaders and managers who were empowered with the training and information to make smart business decisions about their coffee, such as how to add value through improvement in quality practices that would set their product apart as *specialty* rather than *commodity* coffee, and through certifications such as Fair Trade and organic. He felt that the leaders of farmer organizations needed to cultivate direct relationships with the roaster buyers that would help them sell their beans at a premium and sustain that business year after year.[6]

Griswold also believed in the potential for a new kind of business that aligned profitability with the pursuit of human well being and a healthy planet. He would take a long-term view rather than succumbing to the traditional approach of maximizing short-term profit. In order to help the Pedros of the world in a meaningful and lasting way he would need to build a company that was strong and solvent, but he would put social and environmental benefit on equal footing with financial profitability.[7]

As he set out to create a new kind of coffee business that would help farmers "move from subsistence to sustainability," Griswold knew that providing farmers with education, training and access to markets would be key. In the traditional coffee supply chain, the typical path from farm to consumer involved many intermediaries. Through his company, Sustainable Harvest Coffee Importers, Griswold sought to create a more direct, transparent relationship between coffee growers and the consumers they ultimately served. He brought together the various actors in the supply chain, seeking to build authentic, long-term relationships and create value for all involved. By paying farmers a fair price for their beans and investing revenue from coffee sales back into farmer training programs, Sustainable Harvest helped farmers attain a higher quality of life while at the same time developing a reliable source of high quality coffee beans to import. This new model, pioneered by Griswold and his team, came to be known as *relationship coffee*.

[4] Ibid.
[5] Interview with David Griswold, founder and chief executive officer, Liam Brody, president, and Alfonso Carmona, head of sales and marketing, Sustainable Harvest Coffee Importers, January 20, 2017.
[6] Ibid.
[7] Ibid.

The Global Coffee Market

Every year coffee lovers worldwide consume more than 500 billion cups of coffee.[8] To meet the demand for this ubiquitous drink, more than 25 million farmers in nearly 70 countries grow upwards of 20 billion pounds of coffee annually.[9, 10] Most are smallholders who farm plots of land just one or two hectares in size and rely on the crop as their primary or sole source of income. The vast majority of coffee is grown in developing countries located near the equator, where the growing conditions are most favorable. Since the 1960s, worldwide coffee production has tripled. For developing countries, coffee exports today are worth more than $19 billion, making coffee the second most valuable exported commodity, after petroleum, among developing countries.[11]

Coffee consumption, on the other hand, is concentrated in the world's wealthier nations. Nordic and Western European countries hold the top spots for highest coffee consumption per capita. Finland leads the way, followed by Denmark, Norway, Switzerland, Sweden, Germany, Austria, Slovenia, Belgium, Italy, Brazil and France. Though American coffee drinkers consume less per capita (an estimated 3.1 cups per day), in aggregate they drink 400 million cups of coffee daily, making the United States the largest consumer of coffee in the world.[12] Developing countries, for their part, have traditionally regarded coffee as a luxury item. In recent decades, however, coffee consumption has been on the rise in coffee exporting countries and emerging markets, as well as in developed countries, and total worldwide coffee demand is expected to keep growing.[13]

Environmental and Socio-Economic Challenges in the Coffee Industry

Coffee farming traces its roots back to Africa, where the plant was traditionally grown as an understory crop beneath a diversity of shade trees that provided habitat for birds and other wildlife. Traditional coffee farming tended to be more environmentally sustainable than much of the farming practiced today, as farmers rotated their crops and composted their coffee pulp, keeping soils healthy so that expensive chemical fertilizers weren't needed. Growing food for consumption alongside cash crops such as coffee, and intercropping coffee with other plants such as banana and nut trees, provided farmers with food security and diversified sources of income.[14]

The Green Revolution of the 1970s and 1980s brought broad changes to agricultural practices in many regions of the world, and coffee farming was no exception. With technical and financial support from entities such as the U.S. Agency for International Development, coffee farmers were encouraged to convert to "full sun cultivation," growing coffee as a monoculture without a

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[8] International Coffee Organization, "World coffee consumption," January 2017, www.ico.org/prices/new-consumption-table.pdf (February 6, 2017).
[9] U.S. Department of Agriculture, Foreign Agricultural Service, "Coffee: World Markets and Trade," December 2016, https://apps.fas.usda.gov/psdonline/circulars/coffee.pdf (March 30, 2017).
[10] Reflects conversion factors published by the International Coffee Organization.
[11] International Coffee Organization, "World coffee trade (1963–2013): A review of the markets, challenges and opportunities facing the sector," ICC-111-5 Rev.1, February 24, 2014.
[12] *The Coffee Exporter's Guide - Third Edition*, International Trade Centre, 2011.
[13] International Coffee Organization, "World coffee trade," 2014.
[14] Global Exchange, "Coffee and the Environment," www.globalexchange.org/fairtrade/coffee/faq (February 17, 2017).

natural shade tree canopy and applying chemical fertilizers and pesticides to increase yields. This shift to more intensive production came with extensive environmental consequences, including large-scale deforestation and the attendant loss of wildlife habitat, soil degradation, and chemical contamination of waterways. Today, even in places where ecologically sensitive shade cultivation is practiced, coffee pulping operations are a common source of water pollution. Contaminated soils and waters and more direct exposure to chemical inputs also pose threats to human health in coffee farming communities.[15]

Like many agricultural workers around the world, coffee farmers often struggle to make a decent living, facing food insecurity and other challenges common to poor rural communities. The typical coffee supply chain involves a large number of intermediaries including exporters, importers, roasters, processors and retailers, all of whom lay claim to a portion of the coffee's final market price. In some cases, as many as 20 middlemen play a role in bringing coffee from farm to market, leaving farmers with an abysmally small share of the value from their crops.[16] (See Exhibit 1 for an example of the traditional coffee supply chain and Exhibit 2 for a representation of Sustainable Harvest's relationship coffee supply chain.)

Most smallholder farmers have no choice but to sell their coffee directly to middlemen exporters, leaving them with little power to negotiate on price. Up until the dismantling of the Mexican Coffee Institute, for example, farmers in Mexico could often sell their beans to the government parastatal or coffee board. However, with deregulation of the markets, farmers were left selling to so-called *coyotes*, farmers' derisive name for the middlemen, who in turn sold to the big coffee brands via large multinational commodity firms. Payments received by growers might not even cover their costs of production, leaving farmers burdened with debt and trapped in poverty. Owners of large coffee estates, in contrast, typically have the resources to process and export their own crops, selling them at prices set by the New York Coffee Exchange. For the farmworkers at these plantations, working conditions can be harsh and wages extremely low. Although many coffee producing countries have labor laws designed to protect workers, such as a minimum wage, health and safety requirements, and freedom to form a union, enforcement of these rights is often lacking.[17]

Climate Change - An Unprecedented Threat

According to the Intergovernmental Panel on Climate Change (IPCC), the adverse impacts of climate change on agriculture are expected to be concentrated in the tropics and subtropics, where nearly all of the world's coffee is grown. The vast majority (99 percent) of the world's coffee supply comes from just two species, *Coffea arabica* L. (Arabica coffee) and *Coffea canephora* Pierre (Robusta coffee). Since Arabica and Robusta are native to different regions, the two coffee species thrive under different climatic conditions. Under likely climate change scenarios, both species are expected to struggle; changes in temperature and rainfall patterns will

[15] Ibid.
[16] Anne Field, "A Supply Chain Overhaul To Boost Coffee Farmers' Income 400%," *Forbes*, July 16, 2014, www.forbes.com/sites/annefield/2014/07/16/a-supply-chain-overhaul-to-boost-coffee-farmers-income-400/ (February 15, 2017).
[17] Global Exchange, "Coffee Production and Labor," www.globalexchange.org/fairtrade/coffee/faq (February 17, 2017).

likely result in lower crop yields, reduced quality, and higher risk of pests and disease outbreaks.[18] (See Exhibit 3 for more details about the potential effects of climate change on coffee production.)

Recent projections published by The Climate Institute are sobering: "Without strong actions to reduce emissions, climate change is projected to cut the global area suitable for coffee production by as much as 50 percent by 2050. By 2080, wild coffee, an important genetic resource for farmers, could become extinct."[19] As climate change continues, coffee farming will likely be pushed upslope, shifting away from the equator into more mountainous regions, where it will inevitably come into conflict with other land uses, put pressure on intact forests, and encroach on fragile landscapes more prone to soil erosion.

A number of short-term technical solutions could help farmers adapt to climate change, such as implementing more resilient farming practices and improving the efficiency of on-site processing systems. More robust, longer-term solutions would include capacity building, use of mapping tools, enhancing soil fertility, developing and planting drought and disease resistant coffee varieties, and creating financing mechanisms to make these efforts possible.[20] Unless they receive outside help, many producers, particularly smallholders, won't have the capacity - the knowledge or resources - to adapt in sustainable ways. Lacking alternatives, growers may turn to more intensive farming practices to keep their yields up, as has been the global trend. Others will diversify their crops to reduce their dependence on coffee. Eventually, some growers will likely have no choice but to drop out of coffee production entirely. While coffee consumers are likely to feel the effects of climate change in the form of higher prices and diminished quality, these inconveniences will pale in comparison to the physical and mental toll exacted on coffee farming families and communities.[21]

Doing Coffee Differently - Sustainable Harvest Pioneers the Relationship Coffee Model

Griswold established Sustainable Harvest Coffee Importers in 1997 to import and distribute coffee that is "environmentally sound, economically viable and socially just."[22] By creating a new model of coffee trading, which came to be known as "relationship coffee", Griswold hoped to help break the cycles of poverty and environmental degradation that were common in coffee growing communities. The key aspects of the relationship coffee model were its focus on total transparency in business, direct relationships between buyers and growers, and empowering leaders of smallholder coops with the global business skills necessary to achieve market access for their members.[23]

In a major departure from the *status quo*, Griswold insisted that everyone in the supply chain should have access to the same core business information, sharing data on the costs of export and import tariffs, container and shipping costs, and - most important in building mutual trust - the

[18] International Coffee Organization, "Climate change and coffee," ICC-103-6 Rev.1, February 16, 2009.
[19] Corey Watts, "A Brewing Storm: The Climate Change Risks to Coffee," The Coffee Institute, September 2016.
[20] *Climate Change and the Coffee Industry - Technical Paper*, International Trade Centre, February 2010.
[21] Watts, "A Brewing Storm," 2016.
[22] Sustainable Harvest, "Sustainable Harvest Timeline," www.sustainableharvest.com/about/ (February 17, 2017).
[23] Unless otherwise noted, information and direct quotes in this section are from the January 2017 interview with Griswold et al.

prices wholesalers and roasters paid to growers. Achieving such transparency was challenging, as people stood to make more money for themselves if the information available to others was less than complete. The managers of coffee cooperatives, who sometimes kept the details of transactions private from their members, would need to open up their books if they wished to do business with Sustainable Harvest. Armed with complete information, Griswold's team could make sure growers were receiving a fair price, based on internationally recognized fair trade standards. In 2011, for example, Sustainable Harvest paid farmer organizations an average of 65 cents more per pound of green coffee than they would have earned selling their beans on the commodity market through middlemen.[24] To ensure that its sourcing practices adhered to the company's high standards, Sustainable Harvest developed a "checkmark program" for its procurement team to utilize.

Griswold's commitment to equity was also evident in the way he treated his own staff. Though the business could not afford to pay dot.com wages, Griswold made sure to offer his employees generous benefits and to cap his own pay so that the ratio of the highest employee salary to the lowest remained 5:1 among staff in the U.S. In sharp contrast, a 2015 analysis of S&P 500 companies showed an average ratio of CEO pay to *median* worker pay of 204:1.[25]

In addition to engaging directly with farmers, Sustainable Harvest regularly brought together all of its supply chain partners - the farmers, importers, roasters and anyone else with a stake in the coffee industry - at its annual *Let's Talk Coffee* gathering. While these gatherings represented a substantial financial commitment for Sustainable Harvest, Griswold believed that the importance of these personal interactions could not be overestimated. Through structured and unstructured time together, participants learned about key market trends, witnessed promising water-saving technologies, found new investment deals, gained awareness and inspiration to change unfair or unsustainable practices, and much more. With shared understanding of the challenges and opportunities faced by individuals up and down the supply chain, stakeholders could work together in new ways to make the whole system stronger. According to Sustainable Harvest's head of sales and marketing, Alfonso Carmona, Griswold's instinct for hiring "systems thinkers" and bringing them together has been one of his greatest traits. "He's always thinking 'who else can I add to the conversation?'" Carmona explained. "Not trying to tackle every single issue by yourself, thinking outside of the box, and asking questions. Who might have better information? Who might have better systems? Who can I ask that's in a different industry? That really changes your perspective on the work that you do and expands the impact that you can have."

Educating and training farmers was another essential element of relationship coffee. Sustainable Harvest plowed a significant share of its profits back into training programs, historically spending up to a third of its annual operating budget teaching coffee farmers about agricultural best practices, wastewater management and ways to combat food insecurity, for example. The company even taught farmers how to taste and "cup" their own coffee, checking to see if the beans were of high quality before sending them to market. Through the dedicated efforts of chief coffee officer Jorge Cuevas, Griswold's longest serving employee, Sustainable Harvest had

[24] Sustainable Harvest 2011 Impact Report.
[25] Andrew Chamberlain, "CEO to Worker Pay Ratios: Average CEO Earns 204 Times Median Worker Pay," Glassdoor Economic Research Blog, August 25, 2015, www.glassdoor.com/research/ceo-pay-ratio/ (March 30, 2017).

invested in more than 200 supplier partners becoming professional coffee tasters, or "Q Graders," accredited through the Coffee Quality Institute.

While compassion and altruism certainly played a role in all these additional investments, Griswold was also convinced that devoting resources to these efforts was essential to a building a strong business. By channeling resources back into farming communities, Sustainable Harvest strengthened its own supply chain, nurturing a reliable source of high quality organic coffee that it could sell at a premium into global consumer markets. (Exhibit 4 illustrates Sustainable Harvest's long-term financial commitment to farming communities.)

In some cases, Griswold turned to philanthropic or government partners to bring more resources to struggling coffee farming communities. One of Sustainable Harvest's early forays into such partnerships involved an innovative grant from the Lemelson Foundation, whose contributions enabled Griswold's team to work with impoverished Tanzanian coffee growers to improve their farming practices while also creating a protective buffer zone around Gombe National Park, where renowned primatologist Jane Goodall conducted her research. Not only was planting trees and converting to shade grown coffee good for farmers' yields, it also created a corridor where chimpanzees could migrate in and out of the park, preserving the genetic diversity of the populations that lived there. The financial resources needed for this effort were so great and the return on investment so low - the estimated payback period was 13 years - that Griswold couldn't justify taking it on alone. The philanthropic support from Lemelson provided the necessary catalyst.[26] The coffee from the Gombe cooperative, known as Kanyoyu AA, was later selected as the top coffee in Africa at the 2010 East African Fine Coffee Association competition.

Over the years Griswold had found other valuable partners that had been willing to fund a variety of small projects, enabling Sustainable Harvest to try new technologies and test out agricultural inputs like organic fertilizer, for example. Yet the company lacked the type of ongoing support and structure needed to make sure those ideas became permanent solutions. Griswold also struggled to find adequate resources to provide farmers with the robust training and education he knew they needed in order to succeed. The widespread challenges that Griswold continued to encounter in coffee growing regions led him to create a non-profit organization, in partnership with Bloomberg Philanthropies, called the Relationship Coffee Institute (RCI). With $10 million in funding from Bloomberg, RCI would focus on deep capacity building for farmer organizations in coffee growing regions around the world.

Relationship Coffee in Action: Teaching Farmers to Make their Own Fertilizer

In 2008, Sustainable Harvest partnered with Green Mountain Coffee Roasters (now Keurig Green Mountain) to launch an organic fertilizer program that would end up delivering tremendous benefits to farmers. Griswold and his colleagues had witnessed time and again how coffee farmers planted their crops tightly together in an effort to maximize yields and income, in the style promoted during the Green Revolution. Over time, as soil erosion and nutrient depletion led to reduced productivity and made plants more vulnerable to disease and pests, farmers turned to costly chemical fertilizers and pesticides they could hardly afford. To reverse this pattern, Sustainable Harvest taught coffee growers to produce and use their own local, organic fertilizer.

[26] Interview with Julia Novy-Hildesley, former executive director of the Lemelson Foundation, March 30, 2017.

Expert agronomists trained coffee farmers to collect local waste products, such as manure and coffee pulp - the coffee byproduct generated when beans are separated from the surrounding fruit, and introduce carefully selected microorganisms that would break down the waste materials into rich, organic fertilizer. This technique, known by different names such as Bokashi (in Japan), Gaicashi (in Colombia) and Pachakushi, could be adapted to different regions to accommodate locally available materials and waste streams.[27]

By 2017, Sustainable Harvest had helped thousands of farmers make the transition to organic fertilizing, lifting them from a vicious cycle of dependency on costly and unhealthy practices into a virtuous cycle of sustainable farming methods and increased productivity, self-reliance and empowerment. Many farmers served by the program learned to produce organic fertilizer in small batches for their own individual use, benefiting not only from increased coffee yields on their small plots, but also from increased food security as they made their family gardens more productive and nutritious. In some regions, with the help of generous capital contributions from Green Mountain Coffee Roasters, coffee cooperatives built larger-scale, self-sustaining composting plants that could meet the fertilizer needs of all their members and also produce surplus fertilizer to sell outside the community. The co-ops then used the sale proceeds for community projects such as updating their water and plumbing systems, starting a tilapia farm, and building a road to service farmers in remote areas.[28] Though highly beneficial once built, the plants came with a price tag of roughly $40,000, making them unaffordable to many cooperatives unless outside support could be secured.

Relationship Coffee in Action: Mobilizing to Resist La Roya

In late 2012, the coffee industry was put to the test when a severe outbreak of coffee rust disease, or "Roya" in Spanish, hit coffee farms in Central America and Mexico. Roya is an airborne fungus that eats away at the leaves of coffee plants, preventing the plants from flowering and producing beans and eventually killing them in severe cases. While the fungus was not new to low-lying coffee growing regions, this new outbreak spread farther and faster than the previous major episodes of the 1970s and 1980s, as strong winds carried the spores from country to country and warmer and wetter conditions throughout the region (likely a result of climate change, according to many experts) enabled Roya to thrive, even in higher elevations that were previously beyond the fungus' reach. The impact on coffee farmers was devastating, with some losing more than half of their harvests to the disease in successive years.[29] In major coffee growing countries like Guatemala, Honduras and Costa Rica, the governments declared states of emergency. In Nicaragua alone, 37 percent of the country's crop was impacted in the 2012-13 growing season.[30]

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[27] Sustainable Harvest, "Increasing Productivity with Organic Fertilizer," www.sustainableharvest.com/fertilizer-project/ (February 17, 2017).
[28] Ibid.
[29] Elisabeth Malkin, "A Coffee Crop Withers," *New York Times*, May 5, 2014, www.nytimes.com/2014/05/06/business/international/fungus-cripples-coffee-production-across-central-america.html (February 17, 2017).
[30] Jorge Quintanilla, "Witnessing Nicaragua Bounce Back from Roya," Sustainable Harvest Blog, September 16, 2015, www.sustainableharvest.com/witnessing-nicaragua-bounce-back-from-roya/ (February 17, 2017).

When the outbreak hit, Sustainable Harvest and others had more questions than answers. "What is the extent of the damage? How will this affect quality and supply next year? How will these farmers ever recover? What can we do?" Griswold and his team reached out to their suppliers on the ground to better understand the problem and figure out how they could help. "The feedback we got was unnerving and overwhelming," said former global supply chain director Sara Morrocchi. Most producers were unsure how to effectively combat the fungus and felt inadequately equipped. Recognizing the need to bring more clarity and definition to the problem, and to disseminate information and best practices quickly and broadly, Griswold mobilized his team and his broader network, first sending staff members out on a fact-finding mission and then spearheading a collaborative disaster relief effort called the Roya Recovery Project to engage, educate and train coffee producers.[31] Partners including Root Capital, Oiko Credit and the Inter-American Development Bank helped underwrite the effort.[32]

"We met with researchers, cuppers, field extensionists, and lab technicians," Morrocchi explained. "We asked them what they [knew] about Roya, what they [were] doing in their personal field to combat it, and what variables producer organizations need to consider when they deal with the fungus. We investigated the role that shade, rainfall, and increasing temperatures played in the proliferation of the fungus. We saw alternative organic treatments that farmers developed to mitigate coffee leaf rust on their farms. We heard many sides on the debate about resistant varietals and cup quality. And we gathered astonishing stories of farmers who found ways to protect their farm in very creative ways."[33]

In June 2013, armed with new information and a network of industry collaborators, Sustainable Harvest convened a three-day forum in Honduras, called *Let's Talk Roya*, modeled after the *Let's Talk Coffee* gatherings that Sustainable Harvest had been hosting for coffee supply chain members every year for the past decade. At *Let's Talk Roya*, industry experts provided hands-on disease diagnosis and prevention training to Central American farmers, while Sustainable Harvest distributed Roya recovery toolkits with agronomy workbooks and educational videos that farmers could share with their home communities. Six months later, Sustainable Harvest hosted an even larger *Let's Talk Roya* gathering in El Salvador, once again convening the industry's experts to help farmers address the immediate socio-economic threats posed by Roya. When coffee farms in Mexico also started to succumb to the disease, Sustainable Harvest was there on the ground, helping farmers protect their crops.[34]

For at least the next few years, the specialty coffee industry would feel the effects of the Roya crisis in the form of higher costs, decreased production and lower coffee quality. Griswold advocated for transparency and open communication about the impact these changes would have on Central American farmers.[35] Knowing that industry-wide support would be critical to the

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[31] Sara Morrocchi, "The Roya Recovery Project," Sustainable Harvest Blog, March 23, 2013, www.sustainableharvest.com/the-roya-recovery-project/ (February 17, 2017).
[32] Interview with Griswold et al., 2017.
[33] Morrocchi, "The Roya Recovery Project," 2013.
[34] Chris Ryan, "Roya, weather impacting current harvest in Chiapas," Sustainable Harvest Blog, June 13, 2014, www.sustainableharvest.com/roya-impacting-harvest-in-chiapas/ (February 17, 2017).
[35] Wynne McAuley, "Let's Talk Coffee - and Roya - in Honduras," Sustainable Harvest Blog, June 13, 2013, www.sustainableharvest.com/roya-impacting-harvest-in-chiapas/ (February 17, 2017).

region's recovery, he helped organize coffee buyers and importers into support networks for growers.

Sustainable Harvest spent more than $200,000 of its own resources to develop the toolkits and run *Let's Talk Roya*, a contribution that ultimately catalyzed a much greater infusion of financial support for the region's struggling coffee farmers. "The real impact came out of the conversations that took place at the meetings," Griswold said.[36] In fall of 2013, Root Capital, Green Mountain Coffee Roasters, the Multilateral Investment Fund of the Inter-American Development Bank and Skoll Foundation joined forces to launch a $7 million Coffee Farmer Resilience Initiative. The collaborative venture would provide loans to farmers whose plants had been ravaged by the fungus, enabling them to replace dead coffee trees with new, high-quality, rust-resistant varietals. Farmers would also receive training in financial management, income diversification strategies and climate-smart farming practices.[37]

After years of struggle, signs of recovery started to emerge in 2014 and 2015, giving producers in the region reason for hope. Farmers who had previously cut their diseased coffee plants down to stumps and waited for them to grow back, free of Roya, began to see healthier yields. Those who had replaced their diseased trees with new plants were also returning to production.[38]

Jorge Quintanilla, who served as Sustainable Harvest's Central America supply manager at the time, looked for a silver lining in the crisis. "If there is [one], it's that producers learned from the outbreak and have a renewed energy toward caring for their plants. On my visit [to Nicaragua] I saw producer organizations like Soppexcca and Reyna del Cafe demonstrate a renewed focus on pruning and renovation. These groups and others also now possess an increased awareness of Roya and other plant diseases, and they are monitoring their trees more closely than ever for the slightest hint of trouble."[39]

According to Liam Brody, a seasoned impact finance professional who recently joined Sustainable Harvest as president to lead the company alongside Griswold, the Roya crisis brought into sharper focus for the entire industry the enormity of the challenge posed by climate change. "We saw many other companies start to realize, 'Oh, wait a minute, unless we step back, unless we start finding new collaborative, innovative ways to work together and invest in things that we had always externalized, we're not going to be able to do business effectively in the future," Brody said.[40]

To B Corp or Not to B Corp? An Easy Question

Griswold was attending a conference in Portland in 2007 when he heard Bart Houlahan, one of the founders of the nonprofit B Lab, speak about a new type of corporate entity, the B Corporation, that empowered business leaders to prioritize social benefit in addition to profit (the

[36] Interview with Griswold et al., 2017.
[37] Liam Brody, "Root Capital Launches $7 Million, Multi-Year Initiative to Combat La Roya and Build Farmer Resilience," Root Capital blog post, November 7, 2013, https://blog.rootcapital.org/back-roads-to-boardrooms/root-capital-launches-7-million-initiative-to-combat-la-roya-and-build-farmer-resilience (March 30, 2017).
[38] Quintanilla, "Witnessing Nicaragua Bounce Back from Roya," 2015.
[39] Ibid.
[40] Interview with Griswold et al., 2017.

"B" stands for benefit). "He was talking about embedding into your articles of incorporation the goal of creating stakeholder value, not just shareholder value," Griswold recalled. The concept was not new to Griswold. Three years earlier he had discussed with some friends in his shared office building the possibility of revising Sustainable Harvest's articles of incorporation to institutionalize the company's commitment to public benefit. He even went as far as meeting with social change-oriented bankers from Shorebank and Oregon Business Bank about the idea, but then never got around to making the change. "So when I heard [Houlahan] speak, I thought, 'Oh my gosh, here's someone who's actually doing it.' I ran up to the stage after he finished and said, 'I've been waiting for something like this.' And we signed up," Griswold said.[41]

That same year, Griswold successfully pursued Certified B Corporation status for Sustainable Harvest, working with B Lab to complete the process and become the first Certified B Corp in the coffee industry. First, Griswold and his team completed the B Impact Assessment, a comprehensive evaluation designed to determine the company's impact on its various stakeholders. Sustainable Harvest scored 134 points out of a possible 200 across the five categories of environment, workers, consumers, community and governance, well above the minimum score of 80 required for certification. Griswold then worked with attorneys to integrate the company's social and environmental values into its governing documents. Making these changes gave Griswold peace of mind that the company's social purpose would always remain a priority. Though Griswold, sole owner of the company, wasn't planning to sell the business or to step down any time soon, the new legal structure ensured that the mission would survive any organizational changes the future might hold in store.

Box 1: EXCERPT FROM ARTICLES OF INCORPORATION, SUSTAINABLE HARVEST, INC.

Article VI.

A. The Corporation is authorized to conduct business in an environmentally and socially responsible manner.

B. The Corporation is a benefit company subject to sections 1 to 11 of chapter 269, Oregon Laws 2013. The Corporation has the purpose of providing a general public benefit, that is, a material positive impact on society and the environment, taken as a whole, from the business and operations of the Corporation.

Source: Sustainable Harvest, Second Amended and Restated Articles of Incorporation, filed January 14, 2014 with the Oregon Secretary of State.

To maintain its B Corporation certification, Sustainable Harvest was required to complete a new impact assessment every two years. In each of its successive assessments, the company successfully met B Lab's requirements, even as the organization updated its standards to be more rigorous over time. (See Exhibit 5 for Sustainable Harvest's most recent B Impact Report.)

[41] Information and direct quotes in this section are from the interview with Griswold et al., unless otherwise noted.

Convinced that the B Corp movement was essential to achieving broader industry transformation, Griswold assumed the role of unofficial B Corp ambassador, encouraging businesses in the coffee arena and beyond to get involved. He had come to favor B Corp certification over other certification programs because the B Corp process fostered accountability throughout the supply chain, rather than placing the onus for good behavior only on the producers. "B Corp was really looking at how do we *all* trade, how do we treat our employees, our community, the environment. It was really taking away the greenwashing and the marketing campaigns and saying 'this is what we stand for,'" Griswold explained. He took great pride as other companies in the coffee community joined the movement over time - including several Sustainable Harvest customers such as Equator Coffee and Teas, Nosa Familia Coffee, Reunion Island Coffee, Coda Coffee Company and Salt Spring Coffee. Though Sustainable Harvest's producers technically could not become B Corps because they were structured as co-ops, several of them took the assessment and scored very well due to the way they treated their workers. "None of the other certifications really look at how you run your business and what kind of decisions you make that way," Griswold said, "and so we're going to stay with B Corp."

Griswold's B Corp network became indispensable to him as a source of inspiration, advice and moral support. In the face of inevitable setbacks, staying in touch with other social entrepreneurs who were "fighting the good fight" helped him stay focused on what really mattered. Of the many B Corporations that Griswold admired, two stood out in his mind. One was Ben & Jerry's, the famously quirky ice cream company (acquired by Unilever in 2000) that took an early bet on Griswold back in 1994 and had been sourcing beans from him ever since for coffee flavoring.

The other was New Belgium Brewing, maker of Fat Tire and other craft beers, based in Griswold's hometown of Fort Collins, Colorado. Griswold was impressed by New Belgium's strong commitment to transparency and employee engagement. Under the leadership of Kim Jordan, the company practiced open book management, providing employees with full access to the company's financials and a clear view into managerial decision-making processes.

As busy as they were operating their own companies, Griswold and Jordan’s teams found time to pursue a fun B Corp collaboration together. The two like-minded companies, both pioneers in their own fields, joined forces to create an innovative coffee-beer beverage, called Grand Reserve, which New Belgium would offer for a limited time as part of its "Lips of Faith" sour beer series. To produce this unique *sour beer*, a new category that New Belgium made famous in the craft brewing industry, Griswold supplied New Belgium's brew masters with the most prized coffee available, the Geisha varietal grown at the Panamanian farm Hacienda Esmeralda. This esteemed varietal was first imported in the 1960s from Ethiopia to Central America and then planted in the early 2000s at the Esmeralda farm at an altitude of almost 6,000 feet. It is now considered the most sought-after bean in the world, fetching as much as $600 per pound of green coffee. "When the Panama Geisha appeared in the coffee market in 2004, it helped redefine the way the industry looks at coffee beans," Griswold explained. "In the same way that the Panama Geisha changed the outlook of coffee roasters, New Belgium's Lips of Faith beers created a new category of sour beer options for craft brewers to explore," Griswold explained. The brief partnership with New Belgium was a positive one for his team, and he looked forward to pursuing other "B Collaboration" opportunities in the future.

Box 2: THE SHIFT TOWARD SUSTAINABLE BUSINESS

Just as B Corporations are reinventing business by aligning profitability with social and environmental impact from the outset, growing numbers of traditional businesses, including some of the world's major multinational corporations, are also making moves to embed sustainability into their core purpose and operations. Motivations for this shift vary. Some companies face serious risks to their supply chains and manufacturing processes, as climate change and population growth put increased pressure on the planet's natural capital stocks. Others are motivated to cut costs and increase revenues, leading them to reduce or repurpose waste streams, for example. Still others hope to capitalize on the marketing and recruitment opportunities that come with being a good corporate citizen, or to avoid reputational risks that come with being a laggard. Whatever the reason, more and more companies today have employees or teams dedicated to corporate social responsibility and sustainability initiatives. Those making the biggest advancements have leaders at the most senior levels making sustainability a top priority.

Unilever, for example, the Anglo-Dutch consumer goods company that sells products under more than a thousand brand names worldwide (Dove, Lipton and Ben & Jerry's, to name a few), hasn't always emphasized sustainability, but now, under the leadership of CEO Paul Polman, the company is making sustainability core to its corporate vision and values and is changing its practices accordingly. Unilever's *Sustainable Living Plan* describes how the company's drive toward sustainability is also driving its business success:

"With 7 billion people on our planet, the earth's resources are immensely strained. This means sustainable, equitable growth is the only acceptable model for our business. We believe growth and sustainability are not in conflict. Making sustainable living commonplace for our consumers is helping to drive profitable growth. By focusing on sustainable living needs, we build brands with a significant purpose. By reducing waste and material use, we create efficiencies and cut costs. This helps to improve our margins. By looking at product development, sourcing and manufacturing through a sustainability lens, opportunities for innovation open up. And by collaborating with partners including not-for-profit organizations, we gain valuable new market insights and extend channels to engage with consumers."[42]

Among the large corporations that dominate the global coffee industry, a true sustainability champion has yet to emerge. Though Starbucks holds itself to top-notch sourcing standards (see Appendix 1), the coffee chain represents just 2 percent of the world coffee market (by retail sales volume).[43] Nestle, meanwhile, controls about 23 percent of the global market, yet its commitment to sustainability is narrowly focused on its high-end Nespresso brand, which accounts for less than 10 percent of its total coffee sales.[44] To really move the sustainability needle for coffee, a much stronger commitment by the Nestles of the world will be required.

[42] Unilever Sustainable Living Plan, www.unileverusa.com/sustainable-living/our-strategy-for-sustainable-business/embedding-sustainability/ (February 24, 2017).
[43] Julie Craves, "Corporate Coffee: How much is eco-certified?" Coffee and Conservation blog, January 16, 2012, www.coffeehabitat.com/2012/01/market-share-update-2012/ (February 24, 2017).
[44] Julie Craves, "Nespresso AAA Quality Program Guidelines," Coffee and Conservation blog, June 22, 2015, www.coffeehabitat.com/2015/06/nespresso-aaa-guidelines/ (February 24, 2017).

Looking Back Over 20 Years - A Small Firm Delivers Outsized Impact

By 2017, as Sustainable Harvest approached its 20th anniversary, Griswold had built his coffee import company into a $50 million business ($30-70 million in any given year depending on coffee prices), successfully competing in a commodity trading industry dominated by a handful of billion dollar companies. Sustainable Harvest now imported one-sixth of all Fair Trade and certified organic coffee sold in the United States, sourcing beans for major retailers such as Peet's and La Colombe. Though its market share was significant among specialty importers, in some ways Sustainable Harvest had never aspired to be the largest or the biggest, according to Brody. "You can see, looking back, the outsized role that this small, boutique trading firm has played in the industry. I don't know that you would have sustainable coffee looking like it does today if it wasn't for the early work of Sustainable Harvest," Brody reflected. "The question for David was always, 'How can we be the most impactful and the most influential?'"[45]

Since the company opened its doors, Griswold had bought half a billion dollars worth of coffee from small holders, at premium prices, giving them access to the market and helping them forge direct relationships with buyers. "That kind of collective empowerment of small farmers has not happened in any commodity the way we've done it," Griswold said. "As one company, we weren't out to transform the entire industry by ourselves, but we showed that the relationship model could be successful and hoped it would inspire others."

The company's influence extended beyond coffee. Brody, whose work building and leading Root Capital had given him broad exposure to sustainable agriculture in developing countries, had witnessed first-hand how advancements in the coffee industry were helping to revolutionize the sourcing of other agricultural products all around the world. "There's a lot of leap frogging that happens. Sustainable Harvest plays a huge role in that," Brody said.

Griswold had chosen this path, not because he was excited to be a coffee importer, but because he saw it as a means to help the struggling communities that he'd seen in his travels in Africa and Latin America right after college. In fact, he attributed Sustainable Harvest's success, in part, to the fact that he'd never worked as a trader in a typical trading company and wasn't constrained by preconceived notions of what that entailed. "I was able to ask myself, 'What are the things I really like doing?' Well, I like story telling. I like technology. I like to connect and convene people," Griswold said, "and so we sort of forced a square peg into a round hole and came up with a different model." By honoring his natural gifts and motivations, Griswold built and led the company in a way that felt authentic to him, and Sustainable Harvest flourished.

Creating the Future of Coffee

Griswold had always seen it as his role in the industry to think about what should come next. "We've done that from very early on," Griswold said. "Our tagline when we first started was *'creating the future of coffee.'* Now, after 20 years, when we look around and see that, wow, all

[45] Unless otherwise noted, information and direct quotes in this section are from the January 2017 interview with Griswold et al.

the competitors sound like us, write like us and so on, then it's time to ask ourselves, alright, what's next?"[46]

That January day in 2017, as the new Trump administration started moving into the White House, Griswold asked Brody to join him in his office as he puzzled through a number of really big questions. They both knew there was hard work ahead.

Top of mind for Griswold was the question of how to engage more stakeholders in the relationship coffee model, especially as the industry continued to consolidate.[47] How could Sustainable Harvest bring larger companies into the mix to achieve greater scale and impact? How might they influence more competitors to follow suit? Could they break down, or at least chip away at, the barriers that prevented *the whole industry* from operating in service of sustainability? And what about influencing industries outside of coffee? Griswold had been getting calls from the biggest players in the world - Coca-Cola and Walmart and others who operated on a massive scale and were trying to figure out how to source for impact and how to communicate it. Griswold and Brody both believed there was an opportunity for Sustainable Harvest to take the lead here. As Brody put it, "We think we can be the seeing eye dog for a lot of the big consumer package companies and brands that are out there, so they can figure out how to do sustainability and direct trade at scale."

Griswold and Brody also thought about how they could best help the farming communities in their network who, despite their efforts, continued to struggle in the face of widespread poverty, political strife or other profound challenges. As a B Corporation, Sustainable Harvest constantly sought to strike the right balance between its need to make a profit and keep its doors open with its need and desire to reinvest more resources back into farming communities. Remaining profitable was especially tough for social enterprises working in impoverished communities. As much as Griswold and his team wanted to help, some of the systemic failures in origin countries ran so deep and were so challenging that they were well beyond the capacity of a small company like Sustainable Harvest to address. They knew that continued collaboration would be essential to making progress in these regions. What could they do to garner the resources these communities needed as they worked to build up their own business?

Finally, Griswold's mind turned to climate change and the trials it was sure to bring. Especially in trying times, he knew it was essential to nurture human relationships. "If you gather together, break bread, and talk about the challenges, then people can stay together and find strength. Otherwise people think that the powers they face are just too big and they feel like giving up," he said. Griswold wondered, were the right stakeholders at the table? Who else needed to be brought into the conversation? Was *Let's Talk Coffee* the right forum for convening stakeholders to tackle this massive challenge?

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[46] Unless otherwise noted, information and direct quotes in this section are from the January 2017 interview with Griswold et al.

[47] JAB Holding Companies, for example, has made multiple acquisitions in recent years and now owns major brands such as Keurig Green Mountain, Caribou and Intelligentsia. Sustainable Harvest sells to several JAB-held companies including Keurig, Peet's and Stumptown.

Brody reflected on what was at stake. "We've built personal relationships with coffee farmers and co-op managers over two decades. We've invested every ounce of energy we have, all our political capital, our social capital, our financial capital, trying to make this work against a lot of odds," Brody said. "And we have seen this whole segment really grow. We've seen the fair trade market grow, the sustainable products market grow. We've seen a lot of the world's funders refocus on agriculture after it had been forgotten since the 1970s. All of this has just been amazing. So much reason to be excited. And yet at the same moment we started to hear a lot of people say that coffee was the proverbial canary in the coalmine for agriculture, particularly with the crisis brought on by Roya. After 20 years, we've had all this success, but it has the potential to backslide as the effects of climate change set in."

Brody and Griswold were cautiously optimistic. They'd been inspired time and again by the grit and staying power of their partners in the coffee supply chain, especially the farmers at the base who had been hit with challenges year after year. In the face of climate change, everyone would need to rally together. "It's a call to arms at this point," Brody said.

Exhibit 1
Traditional Coffee Supply Chain

Source: Sustainable Harvest

Exhibit 2
Collaborative Coffee Supply Chain

Source: Sustainable Harvest

Exhibit 3
Possible Effects of Climate Change on Coffee Production

Quality: As temperature rises, coffee ripens more quickly, leading to a fall in quality. According to Dr. Peter Baker from [the nonprofit Centre for Agriculture and Biosciences International], if temperatures rise by 3 degrees Celsius by the end of this century (some experts believe an increase of up to 5 degrees Celsius is possible), the lower altitude limit for growing good quality Arabica coffee will rise by roughly 150 feet per decade. This is 15 feet per year, meaning that areas that are currently too cold for growing coffee could become suitable. However, land use at higher altitudes is restricted in many countries due to competition from other crops, inadequate soil, restrictions on cultivation, inappropriate rainfall patterns, lack of irrigation or simply an absence of infrastructure.

Yields: Temperature increases affect different aspects of the metabolism of coffee trees, such as flowering, photosynthesis, respiration and product composition, which in turn adversely affect coffee yields.

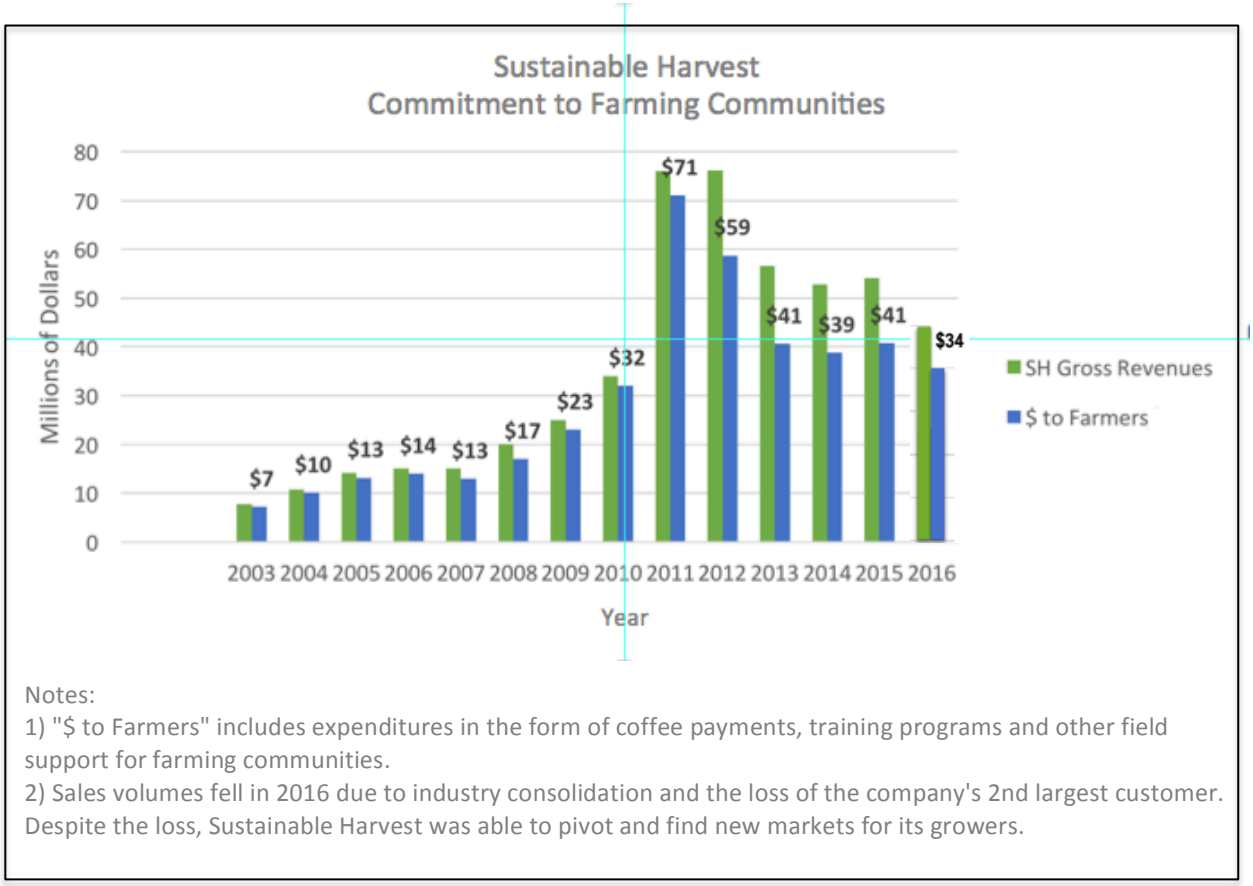
Pests and diseases: Temperature increases will favor the proliferation of certain pests and diseases, as well as permitting their dispersion to regions where they were previously not present. In the case of the coffee berry borer (*Hypothenemus hampei*), considered to be the most damaging pest affecting coffee production, Jaramillo et al. (2009) predict a maximum intrinsic rate of population growth of 8.5 percent for every 1 degree Celsius increase. [...] A report from Colombia warns of the possible increased incidence of diseases, such as coffee rust (*Hemileia vastatrix*) and pink disease fungus (*Corticium salmonicolor*).

Irrigation: As aquifers become scarcer, there will be greater stress on their use, forcing stricter control measures. According to [an IPCC technical paper on climate change and water], 'Climate model simulations for the 21st century are consistent in projecting precipitation increases in high latitudes (*very likely*) and parts of the topics, and decreases in some subtropical and lower mid-latitude regions (*likely*)'. The report concludes that many semi-arid areas, such as southern Africa and northeastern Brazil, are likely to experience a decrease of water resources due to climate change. On the other hand, more intense precipitation and variability will very likely increase the risks of both flooding and drought in many areas. In areas that do not currently require irrigation, higher temperatures may result in increased evapotranspiration and reduced moisture content in the soil. Such areas may require the implantation of costly irrigation infrastructure. In addition, the useful life of coffee trees subject to hydric stress is likely to be shortened.

Global output: As a result of all the changes in the environment, there is a distinct possibility that fewer parts of the world will be suitable for growing quality coffee. If this were to happen, current trends in concentration of production could become even more pronounced. This in turn could make global production more prone to high fluctuations, as any severe disruption in output from one of the major producers would drastically curtail global output.

Source: International Coffee Organization, Climate change and coffee, ICC-103-6 Rev.1, February 16, 2009.

Exhibit 4
Support for Coffee Farmers



Notes:
1) "$ to Farmers" includes expenditures in the form of coffee payments, training programs and other field support for farming communities.
2) Sales volumes fell in 2016 due to industry consolidation and the loss of the company's 2nd largest customer. Despite the loss, Sustainable Harvest was able to pivot and find new markets for its growers.

Source: Sustainable Harvest

Exhibit 5
B Impact Report

Sustainable Harvest 2017 B Impact Report

Certified B Corporation

	Company Score	Median Score*
Overall B Score	115	55
Environment	12	7
Environmental Products & Services (e.g. Renewable energy, recycling)	N/A	N/A
Environmental Practices	3	6
Land, Office, Plant	1	3
Energy, Water, Materials	1	1
Emissions, Water, Waste	1	1
Suppliers & Transportation	1	N/A
Workers	20	18
Compensation, Benefits & Training	13	12
Worker Ownership	2	1
Work Environment	3	3
Customers	N/A	N/A
Customer Products & Services	N/A	N/A
Products & Services	N/A	N/A
Serving Those in Need	N/A	N/A
Community	67	17
Community Practices	24	15
Suppliers & Distributors	11	2
Local	1	5
Diversity	4	2
Job Creation	2	2
Civic Engagement & Giving	6	3

Exhibit 5, continued
B Impact Report

Governance	16	6
Accountability	3	3
Transparency	3	3
Overall	115	55

80 out of 200 is eligible for certification

*Of all businesses that have completed the B Impact Assessment

*Median scores will not add up to overall

Powered by B Lab

Source: B Lab, www.bcorporation.net/community/sustainable-harvest/impact-report/2017-03-23-000000 (March 30, 2017).

Appendix 1: Coffee Certification Programs and Corporate Coffee Standards

A variety of certification programs have been developed in recent decades to raise awareness about the socio-economic and environmental aspects of coffee production and to promote and reward better practices. Coffee that has been verified to meet certification requirements can be sold with a distinguishing label or seal, helping to assure conscientious consumers that the coffee they're buying lives up to specified standards.

Four certification programs have emerged as the most predominant and reputable in the coffee sector: certified organic, Fairtrade, Rainforest Alliance and UTZ. While there is some overlap among the requirements of these programs, there is also quite a bit of variability in the details. Generally speaking, the certified organic and Rainforest Alliance standards prioritize environmentally responsible coffee production, whereas UTZ, and especially Fairtrade, emphasize socio-economic justice, aiming to reduce poverty and ensure fair treatment of workers. Altogether, coffees certified to meet these higher sustainability standards represent a small but growing portion - about 5 percent - of the total world trade in coffee.[48]

In 2008, a group consisting of some of the coffee industry's largest producers and suppliers established a new set of sustainability standards called the Common Code for the Coffee Community. The 4C Code, which targets the 85 percent of coffee that is considered mainstream, was created "to address the most egregious, unsustainable practices in the industry"[49] and ensure that all coffee complies with minimum sustainability standards. With the involvement of major industry players such as Kraft, Nestle, Aldi and Tchibo, 4C holds the potential, at least in theory, to improve coffee farming practices at a much greater scale than certification programs primarily focused on the smaller specialty market. The 4C standards, however, are much less rigorous than the four certification programs mentioned above, calling on producers to meet only the most basic sustainability criteria and leaving much to interpretation.[50]

A handful of corporations in the coffee industry, most notably Starbucks and Nespresso, have shifted away from the predominant 3rd-party certification programs, developing and relying instead on their own in-house coffee sourcing standards. Starbucks created its C.A.F.E. (short for Coffee and Farm Equity) Practices in partnership with the nonprofit Conservation International and the independent evaluation and verification firm SCS Global Services. The C.A.F.E. Practices encompass four themes: 1) product quality, to ensure that coffee beans as well as finished brewed coffee meet Starbucks' high standards; (2) economic accountability, which requires Starbucks suppliers to submit evidence of how much of the final price paid by Starbucks reaches the farmer; (3) social responsibility, which aims to guarantee safe, fair and humane working conditions; and (4) environmental leadership, which requires that farmers manage waste, protect water quality, conserve water and energy, preserve biodiversity and reduce agrochemical use. The standards are considered to stack up well against other certification

[48] *Coffee Exporter's Guide*, 2011.
[49] Julie Craves, "4C Code of Conduct: Marginal Standards for Corporate Coffee," Coffee and Conservation blog, January 20, 2011, www.coffeehabitat.com/2011/01/4c-code-of-conduct-marginal-standards-for-corporate-coffee/ (February 24, 2017).
[50] Ibid.

programs in terms of their rigor, with environmental criteria that are comparable to those of Rainforest Alliance.[51] In 2008, Starbucks set a laudable goal of sourcing 100 percent of its coffee according to C.A.F.E. Practices or similar ethical standards by 2015, a target that the company all but achieved. Of the 554 million pounds of coffee that Starbucks purchased in 2015, 551 millions pounds, or 99 percent, were sourced through the C.A.F.E. Practices, Fairtrade or another externally audited system.[52]

Nespresso, an operating unit of the giant Swiss multinational food corporation Nestle, is known for the brewing machines and single-serve premium coffee capsules it sells. In 2003, Nespresso launched "Ecolaboration", a program that established recycling and other sustainability goals for the division's products and operations. As part of that effort, Nespresso created its AAA Sustainability Quality Program, or "AAA" for short, using input from the reputable Rainforest Alliance to establish the program's social and environmental criteria. Described by the company as "a direct response to long-term systemic risks within the high quality coffee supply chain," AAA focused on teaching farmers best business and growing practices.[53] While critics of the program have said it doesn't go far enough, requiring farms to do little more than comply with internationally accepted minimum standards for sustainability,[54] others have pointed to Nespresso as an industry leader with respect to paying fair prices to farmers.[55] In 2009, Nespresso announced its goal of securing 80 percent of its coffee through AAA by 2013. Then, after reaching that goal, the company set a new goal of reaching 100 percent AAA sourcing for all the coffee in its permanent line by 2020.[56] Encouragingly, 30 percent of Nespresso coffee went beyond AAA and earned Rainforest Alliance certification in 2015, meeting the 3rd-party program's more stringent environmental requirements. However, as critics are quick to point out, Nespresso coffee represents only a small portion (less than 10 percent) of the approximately 850,000 tons of coffee sourced annually by parent company Nestle.[57] Rather than hold all of its coffee to the same sustainability standard as its premium Nespresso line, Nestle measures the large majority of its coffee, including its Nescafé, Dolce Gusto, Taster's Choice and Clasico brands, against the much more lenient 4C Code.

In recent years, as the popularity of single-serve coffee capsules soared (by 2014, single-serve coffee pods represented roughly one-third of all coffee sold in the U.S.),[58] the companies that sell them - Nespresso and Keurig Green Mountain (maker of "K-cups") chief among them - have faced mounting criticism over the large quantities of used pods ending up in landfills. Nespresso partially addressed this problem by setting up pod drop-off locations in countries where the

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[51] Julie Craves, "Starbucks Claims 99% 'Ethically Sourced' Coffee, But What Does that Even Mean?" *Roast Magazine*, Daily Coffee News, May 15, 2015, http://dailycoffeenews.com/2015/05/15/starbucks-claims-99-ethically-sourced-coffee-but-what-does-that-even-mean/ (February 6, 2017).

[52] Starbucks Corporation, 2015 Global Responsibility Report.

[53] Nespresso, The Nespresso AAA Sustainable Quality Program, www.nespresso.com/positive/int/en#!/sustainability/aaa-sustainable-quality (February 6, 2017).

[54] Craves, "Nespresso AAA Quality Program Guidelines," 2016.

[55] Michael Sheridan, head of Catholic Relief Services' Borderlands Coffee Project, as quoted by Angel Gonzalez, "Single-serve coffee revolution brews industry change," *The Seattle Times*, February 15, 2014, http://www.seattletimes.nwsource.com/html/businesstechnology/2022910303_singleservexml.html (June 10, 2017).

[56] Nespresso, The Nespresso AAA Sustainable Quality Program.

[57] Craves, "Nespresso AAA Quality Program Guidelines," 2016.

[58] Roberto A. Ferdman, "America's Favorite Coffee Trend may be coming to an End," *Washington Post*, February 3, 2016, www.washingtonpost.com/news/wonk/wp/2016/02/03/down-go-coffee-pods (March 30, 2017).

capsules were most popular and by offering pre-paid shipping bags to its customers in the U.S. enabling them to mail their spent pods back to the company for recycling.[59] For its part, Keurig Green Mountain successfully introduced its first recyclable K-cup in 2016 and publically committed to making 100 percent of its pods fully recyclable by the end of 2020.[60] However, the lack of viable recycling infrastructure in many regions where coffee pods are sold remains a systemic sustainability challenge in need of a solution.

[59] "Recycling Nespresso pods in the United States," Lungo Cups blog post, https://lungocups.com/recycling-nespresso-pods-in-the-united-states/ (June 10, 2017).
[60] Monique Oxender, "An Update on Recyclability of Keurig Pods," Keurig Green Mountain, April 15, 2016, http://www.keuriggreenmountain.com/en/OurStories/SustainabilityStories/KCupUpdateApr16.aspx (June 10, 2017).