

NESPRESSO AAA SUSTAINABLE QUALITY™ PROGRAM IN ACTION IN COLOMBIA

NESPRESSO AND THE COLOMBIAN
COFFEE GROWERS' FEDERATION WORKING
FOR SUSTAINABLE QUALITY COFFEE



Factsheet 2.5 | June 2013

AT A GLANCE

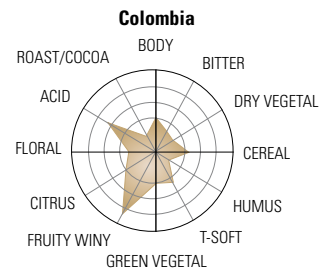
- Colombia is a strategic supplier for the flavour and aroma profiles required for *Nespresso* Grand Cru coffees and is an exceptional partner due to its strong coffee culture and know-how.
- Colombian coffee can be found in 80% of the *Nespresso* Grand Cru coffees.
- *Nespresso* has increased by four times its supply of coffee sourced through the *Nespresso* AAA Program from Colombia in the past six years and is now engaged in seven regions sourcing from approximately 43,000 farms.
- Since 2006, *Nespresso* has invested more than USD 42 million with key partners like the Federación Nacional de Cafeteros de Colombia (FNC), the Colombian government, local community, USAID and ACIDI/VOCA, among others.

THE NESPRESSO AAA SUSTAINABLE QUALITY™ PROGRAM IN COLOMBIA

STRATEGIC BLUEPRINT FOR COLOMBIA

The main reasons why Colombia is of such strategic significance to *Nespresso* are:

- Colombia's unique micro-climates produce coffees that are used in blends for their delicacy and quality. These high quality green coffees are famous for their typical fruity winey sensory profile, accompanied by a fine acidity.
- Most importantly, Colombia is the only country that is able to produce the required volumes for each of the diverse profiles that give the *Nespresso* Grand Cru range its distinct characteristics. Colombia's ability to produce high quality is a result of its coffee tradition and institutions.
- Colombia's continuous research and innovation capability allow *Nespresso* and its partners to innovate with new products for consumers. An example is the Castillo, a new Arabica variety developed by Colombian research centre Cenicafé and the FNC. *Nespresso* and FNC together have created an exceptional new product based on a late harvest concept.



Nespresso has designed a five-point strategic plan to ensure the effectiveness of the AAA Program in Colombia:

- **Further strengthen partnership with suppliers**
Suppliers are strong partners for *Nespresso* in Colombia. For example, FNC's know-how, research centre, close relationship with coffee growers, ability to fundraise and execute projects and the national network of 1,400 agronomists, enable *Nespresso* to deploy the AAA Program more efficiently.
- **Leverage PPP funding**
The complexities created by Colombia's internal conflicts and income inequality have attracted many donor agencies to the country. This has enabled *Nespresso* to find suitable partners that are willing to co-invest in public-private partnerships in the coffee sector as a way of stabilising the social situation in certain regions.
- **Quality™**
Over the years, *Nespresso* has developed expertise in promoting Quality™ practices. This means helping farmers increase their net income through a combination of improved productivity and higher quality while at the same time reducing costs through production efficiencies.



Colombia's unique micro-climates produce high quality coffee with typical fruity-winey flavours.



Small-scale farming:
95% of Colombian farms are smaller than two hectares.



Technical support and specific project financing, together with partners, contribute to addressing the yield improvement challenge.



More than 29,000 infrastructures for wet milling, sun drying or nursery have been installed in Cauca and Nariño since the beginning of the AAA Program.

- **Water management solutions**
Distribution of water management systems and the promotion of better water management practices have been a major component of many of the *Nespresso* PPPs.
- **Creating Shared Value impact assessment**
A series of independent impact assessments have been conducted in Colombia in order to learn how the AAA Program has created shared value. These studies have also provided additional insights that have helped to improve the program and by extension, develop and test new coffee varieties.

ACHIEVEMENTS IN COLOMBIA

Nespresso has made considerable investments to improve farmer incomes and increase the number of sustainable farms.

- Since 2004, more than 43,000 Colombian farmers have decided to join the *Nespresso* AAA Program.
- In 2012, *Nespresso* increased by four times its AAA coffee supply from Colombia compared to 2006 levels. About 29% of the *Nespresso* total green coffee purchases come from Colombia, while nearly 80% is sourced from the farmers in our AAA Program.
- Colombian coffee can be found in 80% of the *Nespresso* Grand Cru coffees.
- Some 82,000 hectares participate in the *Nespresso* AAA Program in Colombia out of 240,000 hectares worldwide. These hectares have been improved through direct investments in infrastructure, health and safety equipment and other measures to improve the social and environmental aspects of farms, as well as to improve the quality of coffee.

- In Colombia, a network of around 130 agronomists is now in place and plays an essential role in the success of the AAA Program.
- A recent study from CRECE* shows the *Nespresso* AAA Program receives the highest level of satisfaction among coffee growers, compared with other sustainability initiatives (82.5%).
- This leads to a very high level of loyalty, with a *Nespresso* AAA Program farmer loyalty rate of more than 90% in some clusters of Colombia.
- A range of projects in partnership with Colombian suppliers is also showing promising signs in yield improvements. For example, more than 58 million coffee plantlets are produced in the frame of the partnership with FNC in Cauca and Nariño.
- Since 2006 in Cauca and Nariño, the close collaboration with the FNC has been delivering significant progress in the field (29,000 wet milling and sun drying installations, 8,000 water management solutions, 15,000 water infrastructures, 44,000 actions for improving farm administration etc.).
- Measuring and tracking Creating Shared Value (CSV) remains a key challenge for sustainability. *Nespresso* has committed to work with CRECE for a three-year monitoring plan in Colombia.
- The community central mill in Jardín, Antioquia also represents a key piece in the CSV learning approach.
- Innovative agricultural processes and methods have resulted in the creation of Grands Crus such as *Rosabaya* and *Naora*. It illustrates perfectly the success of this collaborative and innovative approach in the country.

THE CHALLENGES IN COLOMBIA

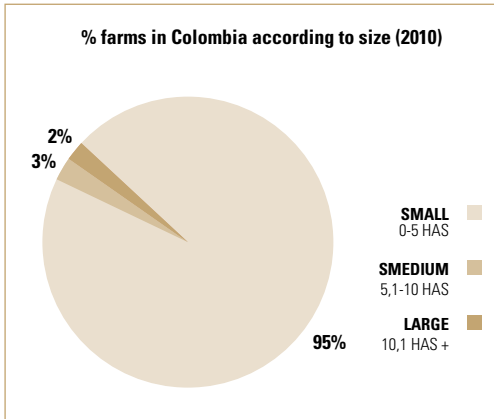
There is a range of challenges, both macro (country-related issues) and micro (related to the implementation of the program), which combined, make the achievement of the AAA Program objectives in Colombia complicated.

- **Intergenerational succession**
The current average age of the Colombian coffee growers is 52. While younger generations sometime work in coffee farms in order to help their families, they seek to leave the farms for the cities in search of better paid jobs, social security or higher education levels.

* A Colombian consulting and research firm

Productivity

Coffee production decreased in 2011 by 12% compared to 2010 and follows a four-year trend of productivity decreases.



Political and social unrest

Some areas remain unsafe to support.

Climate change

Average temperatures in Colombia's coffee regions have risen nearly one degree in 30 years, affecting productivity. For example, El Niño and La Niña resulted in a drop in Colombian coffee production.

Small-scale farming

Some 95% of Colombian coffee-growing takes place on small farms or plots of land, which are, on average, smaller than two hectares. This means that there are few economies of scale leading to low investment.

Regional differences

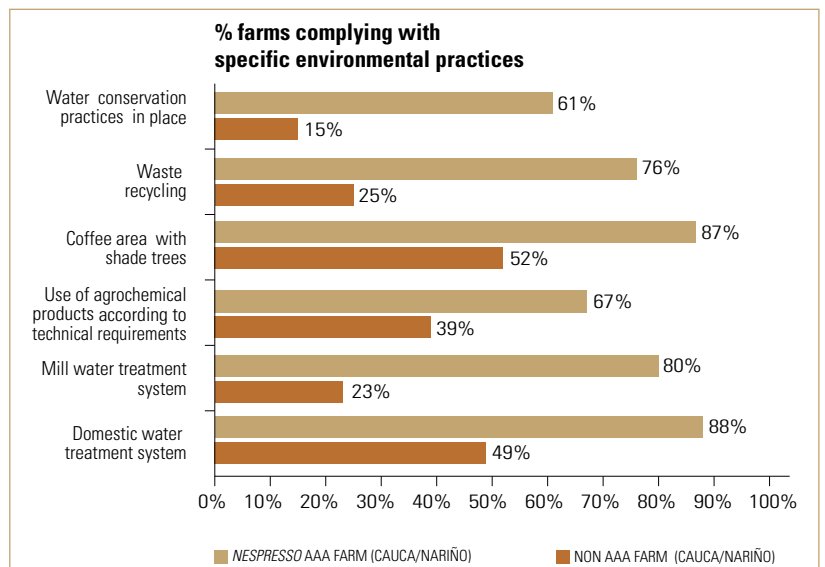
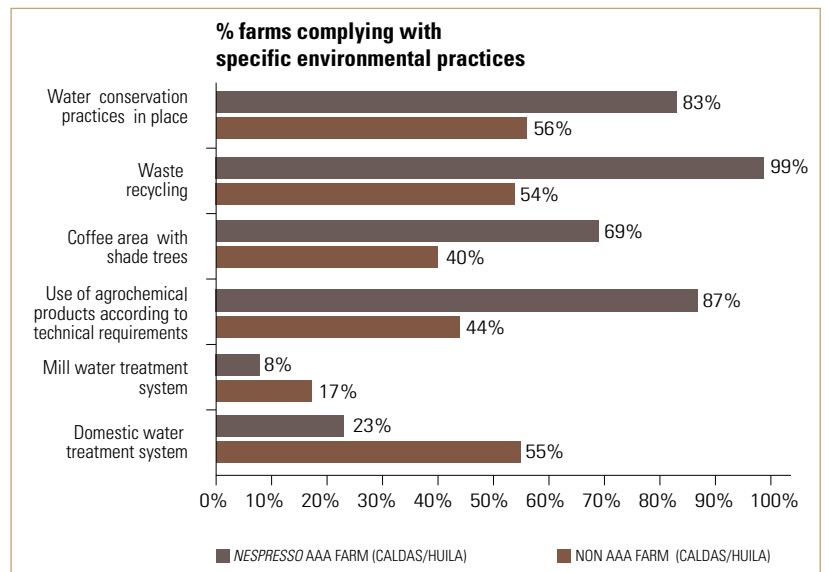
Local access to roads, water sources, yield and alternative income sources, among others, are all factors that can affect the farmers' ability and motivation to join and comply with the Nespresso AAA Program.

SUSTAINABILITY PERFORMANCE AT THE HEART OF THE AAA PROGRAM

The TASQ™ process applies the Rainforest Alliance and Sustainable Agriculture Network (SAN) standards for social and environmental criteria, independently verified by Rainforest Alliance and SAN. More than 32 critical criteria have to be met as a minimum with our support, of which 13 are environmental and 16 are social criteria. Environmental standards are generally considered as being the most demanding of the sustainability initiatives for coffee.

The collaboration with the Rainforest Alliance and Sustainable Agriculture Network is leading to improved environmental and social practices on AAA farms.

According to an independent assessment conducted by CRECE, producers taking part in the Nespresso AAA Program have better environmental practices overall than conventional growers. The CRECE study revealed that the AAA Program has been very effective in improving water management at farm level. More farms adopt better water management practices in their milling practices and are more likely to put water management systems in place. However, the results vary according to clusters.



The chart summarises some key environmental achievements of AAA farms vs. non-AAA farms in two clusters. This performance takes into account energy, water conservation, water and waste management, soil erosion, among other factors.



Water management system in Cauca

Since the beginning of the program in Cauca and Nariño more than 15,000 household water solution and 8,000 water treatment systems for coffee milling were built to protect water sources.

In addition to applying Rainforest Alliance and SAN standards, *Nespresso* has invested in ambitious projects. This includes the central mill in the region of Jardín built in 2010, with a consortium of partners including Expocafé, Los Andes coffee cooperative, USAID and the development agency ACDI/VOCA. This has enabled coffee farmers to double their volume of *Nespresso* AAA Sustainable Quality™ coffee, secure a higher price premium and significantly improve the environmental and social aspects of the process.

(See factsheet “Helping farmers to share their workload in Jardín, Colombia”)



Central Mill, Jardín

WHAT THE EXPERTS SAY

“We would like to highlight the work of Nespresso. We are very grateful for their contribution towards the social and economic development of our farmers by offering better prices for their coffee and providing investments to improve their cultivation and processing practices.”

Cooperativa de Caficultores del Alto Occidente de Caldas

“In Nariño, for example, coffee had an extraordinary quality but thanks to Nespresso, together we have helped farmers to produce it consistently thus ensuring they receive higher prices. Nespresso has shown its commitment to countries of origin and want to know farmers as well as their customers.”

*Ximena Rueda,
Strategic marketing director,
Colombian Coffee Growers’ Federation*



The AAA Program promotes the conservation of biodiversity.

“Thanks to them I have learned how to better take care of my farm and coffee. I now make sure my coffee drying patio and equipment are clean and know when to wash the coffee so that it does not acquire an acidic taste. By meeting these requirements, I am able to sell my coffee at a fair price and use the premium to buy fertiliser and maintain my coffee trees.”

*Cosme de Jesus
Colombian coffee farmer*

AN OVERVIEW OF THE NESPRESSO AAA SUSTAINABLE QUALITY™ PROGRAM



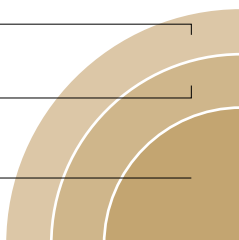
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The *Nespresso AAA Sustainable Quality™* Program was launched in 2003 in collaboration with the Rainforest Alliance to help protect the future of the highest quality coffees required by *Nespresso* for consumers and secure the livelihoods of the farmers that grow them.

STRATEGIC RATIONALE

The program was created with 3 specific objectives in mind:

- Driving innovation
 - Support farmers and improve their livelihoods
 - Secure and stabilise Sustainable Quality™ coffee supply
- The Nespresso AAA Sustainable Quality™ Program**



Agronomists and a farmer applying AAA practices



Farmers' celebration of the *Nespresso AAA* Program in Colombia

MODEL

The *Nespresso AAA* Program is based on **three strategic drivers: quality, sustainability and productivity.**

The general objective of the AAA Program is to support farmers in finding the right balance in managing water, soil, biodiversity and social conditions while increasing coffee quality and productivity. This is why the coffee grower is at the very centre of the *Nespresso AAA* Program.

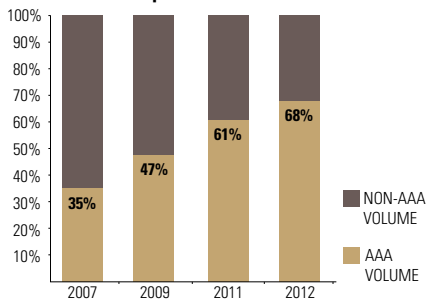
The *Nespresso AAA* Program is the *Nespresso* commitment to sustainability in coffee farming, and one which extends across all dimensions of sustainability: social, economic and environmental. We believe the program offers a more holistic and comprehensive commitment to coffee farms than other certification and verification schemes, because it goes beyond environmental and social considerations (which most initiatives focus on), to include both quality and economic support through premiums and investments.

Today, each A of the AAA Program stands for the three foundations of our approach.

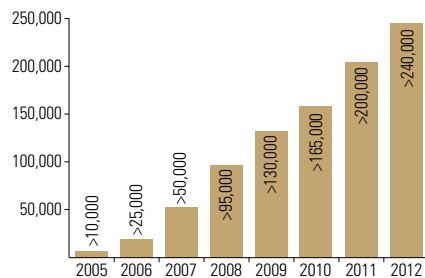
- **First A: Quality**
Helping farmers adopt best practices in coffee cultivation to protect the supply of the highest quality coffee. Quality is the essence of the approach. The program is designed to help farmers continuously improve their quality through better farm management practices.
- **Second A: Sustainability**
Supporting farmers to become more environmentally and socially responsible, the AAA Program sets rigorous environmental and social standards (296 criteria) as defined in partnership with the Rainforest Alliance and the Sustainable Agriculture Network. These include 32 critical criteria, which must be achieved for a farm to be considered compliant.
- **Third A: Productivity**
Helping farmers to improve productivity and implement cost reduction initiatives to increase their net income. Productivity is a key driver for improving farmer net income. AAA Program tools and technical support from a range of partners contribute to addressing the yield improvement challenge.



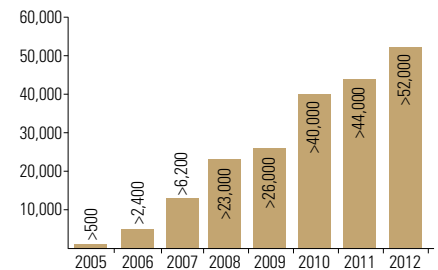
Percentage of annual volume of purchased coffee



Number of coffee Ha in the AAA Program (cumulative estimation)



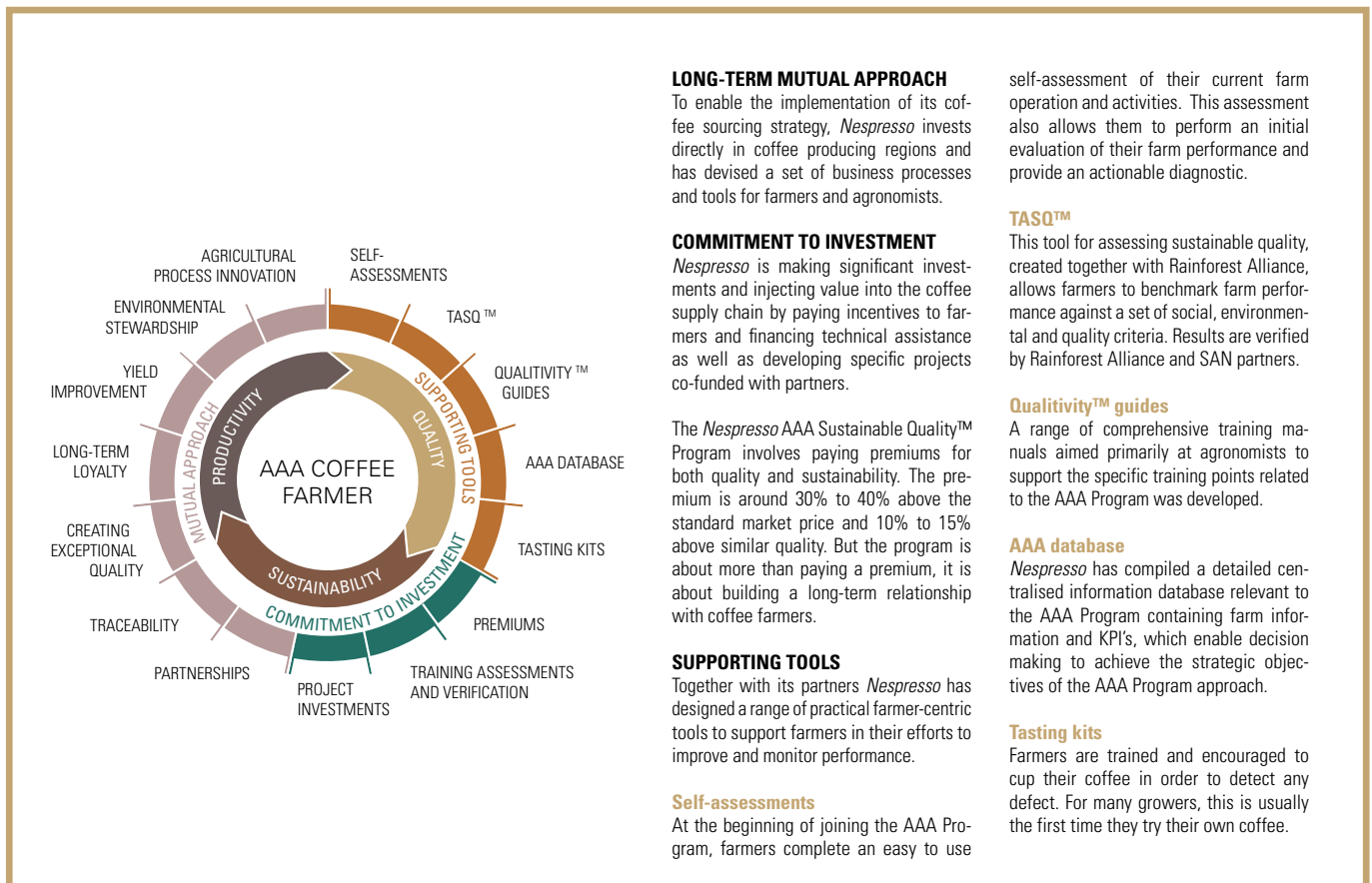
Number of farms participating in the AAA Program (cumulative estimation)



■ Nespresso has publicly announced its commitment to source 80% of its coffee from farms within the Nespresso AAA Sustainable Quality™ Program, including Rainforest Alliance certification, by the end of 2013.

■ In order to achieve this, Nespresso, with its partners, has successfully integrated around 240,000 hectares of coffee farms globally into the AAA Program, ensuring that these areas under cultivation are now part of an active sustainable management program.

■ Since 2003, over 52,000 farmers have joined the AAA Program.



LONG-TERM MUTUAL APPROACH

To enable the implementation of its coffee sourcing strategy, Nespresso invests directly in coffee producing regions and has devised a set of business processes and tools for farmers and agronomists.

COMMITMENT TO INVESTMENT

Nespresso is making significant investments and injecting value into the coffee supply chain by paying incentives to farmers and financing technical assistance as well as developing specific projects co-funded with partners.

The Nespresso AAA Sustainable Quality™ Program involves paying premiums for both quality and sustainability. The premium is around 30% to 40% above the standard market price and 10% to 15% above similar quality. But the program is about more than paying a premium, it is about building a long-term relationship with coffee farmers.

SUPPORTING TOOLS

Together with its partners Nespresso has designed a range of practical farmer-centric tools to support farmers in their efforts to improve and monitor performance.

Self-assessments

At the beginning of joining the AAA Program, farmers complete an easy to use

self-assessment of their current farm operation and activities. This assessment also allows them to perform an initial evaluation of their farm performance and provide an actionable diagnostic.

TASQ™

This tool for assessing sustainable quality, created together with Rainforest Alliance, allows farmers to benchmark farm performance against a set of social, environmental and quality criteria. Results are verified by Rainforest Alliance and SAN partners.

Quality™ guides

A range of comprehensive training manuals aimed primarily at agronomists to support the specific training points related to the AAA Program was developed.

AAA database

Nespresso has compiled a detailed centralised information database relevant to the AAA Program containing farm information and KPI's, which enable decision making to achieve the strategic objectives of the AAA Program approach.

Tasting kits

Farmers are trained and encouraged to cup their coffee in order to detect any defect. For many growers, this is usually the first time they try their own coffee.