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The Nespresso AAA Sustainable Quality™ Program is the unique Nespresso sourcing approach developed to secure the highest quality green coffee required to produce the Nespresso Grand Cru coffees, while protecting the environment and enhancing farmer welfare. Launched in 2003 in collaboration with the NGO the Rainforest Alliance, the program implements a vision of sustainability: one that, based on quality, integrates the spheres of environmental conservation, social equity and economic viability, with the aim of creating long-term shared value.

The Nespresso AAA Sustainable Quality™ Program a unique approach to sustainable coffee sourcing

Overview

Sustainability is a business imperative for a company like *Nespresso* that depends on a natural resource to deliver quality and consistency to consumers. Its future success is dependent on the ability to secure enough coffee of a specific quality and aroma profile to meet its needs. More sustainable farming increases the ability to produce increased volumes of consistent quality far into the future.

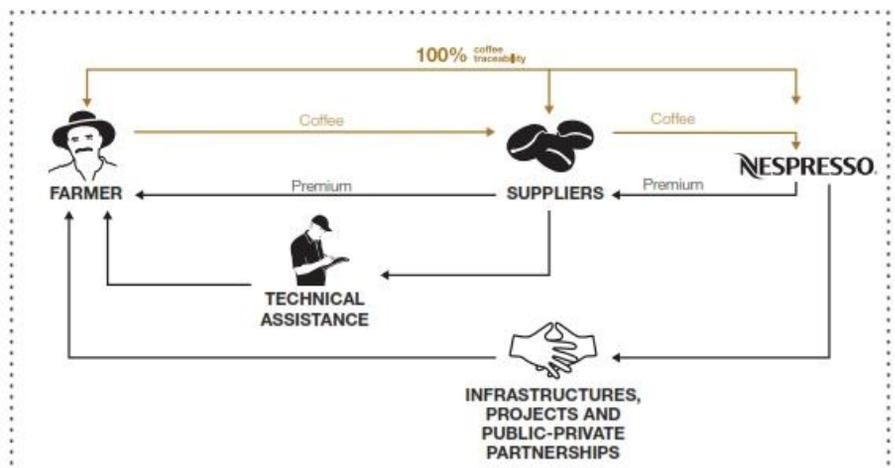
The *Nespresso* AAA Sustainable Quality™ Program represents the *Nespresso* long-term commitment to farmers and coffee growing communities. Within its framework, *Nespresso* provides coffee farmers with support, training, financing and technical assistance to continuously improve quality, sustainability and productivity – the three strategic drivers that are represented by the “triple As” in the program’s name.

Through the AAA Program *Nespresso* also co-invests in coffee-growing projects and infrastructures to improve production processes, increase yields and optimise production costs. Partnerships with farming communities also allow to work collaboratively to develop new and innovative coffees. A strong network of partners, both local and global, plays an essential role in meeting a shared sustainability vision. This includes local coffee cooperatives, regional suppliers, NGOs, government agencies, global financial institutions and research bodies.

Additionally, *Nespresso* pays premiums for quality and as financial incentives for farmers to adopt and **implement the AAA Program best practices in regards to coffee quality, environmental preservation and farm management**, as well as to fund technical assistance and investments on the ground.

THE NESPRESSO AAA SUSTAINABLE QUALITY™ PROGRAM

A unique coffee sourcing model bringing benefits and creating value for farmers.



Background

The AAA Program specifically links quality and sustainability through a program of integrated coffee farm management practices for long term social and economic value. The program is also unique in the enduring, direct relationships that we build with farmers, allowing us to purchase the same aroma profiles and quality coffee from the same farmers, year after year.

In 2009, Nespresso committed to source 80% of its coffee from the AAA Program by the end of 2013. Nespresso is now already sourcing 80% of its coffee from over 56,000 farmers participating in the program in eight coffee-producing countries: Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Brazil, India and Ethiopia.

Quality and productivity

Many of the existing sustainability schemes in agricultural sourcing incorporate a number of standard practices that drive benefits to farmers, including farmers' proximity to eventual buyers and prices that allow for fair labour practices.

While the AAA Program incorporates these features, the addition of a quality and productivity dimension to sustainability makes it unique. It is focused on building a future for partner farmers based on long-term profitability, enhanced environmental and social outcomes and genuine sustainability.

Securing the supply of highest quality coffee

One of the biggest challenges facing a company that manufactures goods out of an agricultural resource is the difficulty in delivering a consistent finished product year after year. Despite the best research and development, state of the art production facilities and sensory experts, there are many factors that are seemingly out of the control of the companies whose mission it is to put the highest quality products in the hands of consumers.

Coffee farmers, especially the large number of smallholders that produce the world's coffee supply, are vulnerable to volatile market conditions and are exposed to broader social, economic and environmental factors endemic to many coffee-growing regions. Poverty, labour shortages, high input costs, climate change and urbanisation make it incredibly difficult for these farmers to plan for and invest in the future. Weather conditions, the timing of the harvest and the land on which the crop is grown will all have an impact on the quality, availability and taste and aroma profiles of the crop in question.

There was a growing demand from *Nespresso* for the 1-2% of the global coffee supply that met the company's quality standards and the specific taste and aroma profiles required to produce *Nespresso* Grand Cru coffees. Coupled with an increase in competition for high quality coffee crops due to an emerging specialty coffee culture worldwide, there was a clear view that a major factor in driving future success for the company would be the ability to secure enough coffee of a specific quality and aroma profile to meet its growing needs. There was also an understanding that quality and sustainability go hand in hand. A sustainable approach to coffee production – both socially and environmentally – is the key to preserving the ability to produce consistent quality in the long-term. This dual approach is effective because it encourages the development of a structure that provides benefits to all those involved in the coffee value chain, from farmer to consumer.

Combining quality, sustainability and productivity

Nespresso felt that no existing sustainability schemes answered their need to secure highest quality coffee. Working closely with the Rainforest Alliance, *Nespresso* developed its own holistic sustainable sourcing model to fit their business needs and requirements. Combining *Nespresso* coffee and quality expertise with the Rainforest Alliance's know-how in sustainability and best farming practices, the *Nespresso* AAA Sustainable Quality™ Program was launched in 2003 with a threefold aim: to help protect the future of the highest quality coffees required by *Nespresso* for its consumers, to protect the natural environment, and to find a more sustainable and equitable outcome for its partner farmers.

Originally, the name of the AAA Program derived from the "AA" standard, a hallmark of coffee quality found in Kenya and other high quality coffee origins. *Nespresso* added the third "A" to represent environmental, social and economic standards. Today, each A of the AAA Program stands for the three foundations of the *Nespresso* approach: quality, sustainability and productivity.



First A: Quality

Quality is the essence of the AAA approach. Farmers who produce coffee that meets *Nespresso* high quality and aroma profiles requirements can become part of the AAA Program. The program is designed to help farmers continuously improve their quality through better farming practices.

Second A: Sustainability

The AAA Program sets rigorous environmental and social standards as agreed in partnership with the Rainforest Alliance and the Sustainable Agriculture Network (SAN). Of these, 106 are directly related to the environment and 90 are related directly or indirectly to biodiversity. These include 36 critical criteria that must be addressed to be considered compliant and include aspects such as prevention of soil erosion, water management, biodiversity conservation, safety and working conditions.

Third A: Productivity

Productivity is key for improving farmers' net income. AAA tools, technical support and specific project financing contribute to addressing the yield improvement challenge together with a range of partners.

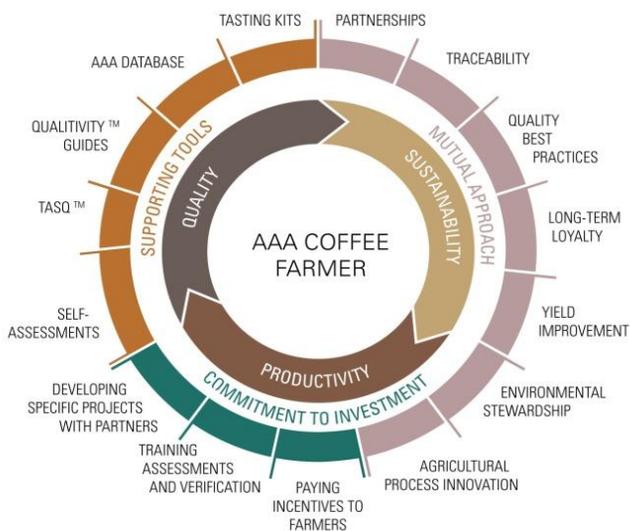


Figure 2: To enable the implementation of its sustainable quality coffee sourcing strategy, Nespresso devised a set of farmer-centric business processes and tools to support the three strategic pillars of the AAA Sustainable Quality™ Program.

Mutual approach

The Nespresso AAA Sustainable Quality™ Program is a voluntary initiative open to farmers within designated Nespresso AAA clusters. These are geographical regions where: coffee meets the quality and aroma standards required by Nespresso, it has the same global characteristics (altitude, soil, varieties, etc.), can be fully traced, production and quality are stable and there is a relationship between farms (cooperatives, suppliers, associations, etc.).

Although Nespresso seeks active participation from farmers who have joined the AAA Program, there is no contractual obligation to join and no obligation to commercialise the coffee through Nespresso. Farmers must therefore see positive benefits from selling their coffee to Nespresso. The AAA Program depends on mutual support, trust and a shared commitment to making progress.

Improving ES provision in coffee farms

Working together to build long-term shared value

The AAA Program takes a holistic approach to sustainability by building a long-term future for smallholder coffee farmers, also aiming to make farming attractive to younger generations. Nespresso pays premiums for quality and as financial incentives for farmers to adopt and implement best practices, as well as to fund technical assistance and investments on the ground. Unlike some programs that set a minimum price, Nespresso pays a premium price of around 30% to 40% above the standard market price and 10% to 15% above coffees of similar quality.

Concretely, on top of the standard market price for coffee and of the premium paid for AA gourmet coffee (Nespresso only sources the highest quality coffees available), farmers receive an additional AAA premium and technical assistance. If a farmer has also achieved Rainforest Alliance certification, he will receive another additional premium.

The AAA Program is not driven by charity but by creating value. Building on a set of insights Nespresso calls Real Farmer Income™, the AAA Program seeks to shift farmers from an exclusive focus on revenues and coffee prices to a more balanced focus on the various factors that will impact the money a farmer takes home. Through the Real Farmer Income™ (RFI) approach, farmers increase their income through improved productivity and quality, while at the same time reducing their costs through production efficiencies. Field experience confirms that productivity is an essential ingredient for economically viable and sustainable coffee farming. Nespresso thus helps farmers in the program in improving productivity, quality and yield through best practices in farm management to increase their net income while creating environmental and social benefits.

By focusing on maximizing economic and social value, the AAA Program forges lasting, direct relationships with coffee growing communities to produce long-term beneficial outcomes for farmers, consumers and Nespresso.



Productive and efficient coffee farms – producing the highest quality sustainable coffee – will be more profitable and will lead directly to improvement in rural development.

The Rainforest Alliance and the Sustainable Agriculture Network (SAN) 296 criteria adopted by the Nespresso AAA Sustainable Quality™ Program include

- 40 economic criteria on farm management, traceability and training;*
- 106 criteria on conservation, wildlife protection and crop management; and*
- 150 social criteria on health & safety, working conditions and community relations.*

Going beyond the 296 criteria set by SAN, the Nespresso AAA Program sets additional quality criteria concerning agricultural practices, coffee processing and harvesting that are applied according to the country of origin.

Since 2009, Nespresso has offered coffee farmers demonstrating progress in the AAA Program the opportunity to apply for Rainforest Alliance certification. By encouraging a growing number of farmers to achieve Rainforest Alliance certification, the company has helped create a new supply of Rainforest Alliance Certified™ coffee which farmers can sell for a premium in the market. This certification is beneficial for farmers as they have the opportunity to secure additional premiums for the coffee that they choose not to sell to Nespresso, thus increasing their incomes.

Virtuous circle and value creation from farmers to consumers

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, as well as ensuring their welfare. This is why the coffee grower is at the very centre of the Nespresso AAA Program. By helping coffee farmers implement sustainable farming practices and thereby increasing their productivity, Nespresso is able to secure the supply of the highest quality coffee it requires to produce its Grand Cru coffees and meet consumer demand, while improving growers' livelihoods and preserving the environment. The result is a virtuous circle that offers enhanced environmental, social and income benefits for partner farmers, while providing consumers with highest quality coffee from farms well along the path to achieve sustainability. Value creation therefore occurs from farmer to consumer.

Global initiative adapted to regional contexts

The AAA Program is a global approach, but its implementation is adapted country per country to fit local contexts. Its sustainability requirements are based on social and environmental standards developed by the Sustainable Agriculture Network (SAN), a coalition of leading conservation groups recognised internationally. The requirements on "Fair treatment and Good Working Conditions for Workers" cover the fundamental International Labor Organization (ILO) standards. As Nespresso operations are rooted in the Nestlé Corporate Business Principles, the AAA Program is compliant with national laws and relevant conventions.



Figure 3: The Nespresso AAA Sustainable Quality™ Program is implemented in 8 coffee-producing countries: Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Brazil, India and Ethiopia. 4



Operational specificities

Partnerships

Nespresso seeks to engage with other partners that have different skill sets and expertise to drive relevant impactful projects. The most important partner is the coffee grower, but success also depends on coffee suppliers (including ECOM, Expocafé, EFICO, Volcafe), development agencies (IFC, IUCN, USAID), academic institutions (INCAE), NGOs (SAN, Root Capital, ACDI/VOCA, TechnoServe), local and national coffee organisations (FNC) and others.

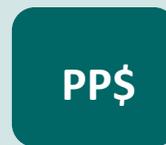
Nespresso also specifically invests in each AAA coffee cluster in order to improve social, environmental and economic performance of coffee farms. Most of these investments are made through public-private partnerships (PPPs) attracting leveraged funds from multilateral agencies into field operations in the clusters. Stakeholders involved in the Nespresso AAA Sustainable Quality™ Program work together to identify solutions for specific challenges and also to identify new approaches to on-farm practices, new coffee varieties and coffee replanting programs, and harvesting techniques that can lead to market innovation and growth.

Supporting tools

Nespresso currently has a network of over 200 agronomists able to provide efficient support to farmers through dedicated tools, trainings, assessments, tailor-made action plans and verification processes. This support is delivered through the **Tool for the Assessment of Sustainable Quality (TASQ™)**, a unique methodology developed with the Rainforest Alliance and other leading NGOs, to assess farm performance against the SAN criteria on sustainability and highest quality farming.

The tool enables farmers to identify deficient practices and, together with Nespresso agronomists, develop a plan to work towards coffee production that is socially, environmentally and economically sustainable. **Partners from the Rainforest Alliance and SAN audit the results.** Once critical criteria are met according to standards, farmers can decide to go through the Rainforest Alliance certification process, if they wish.

Through this on-going support, in combination with the premiums paid for highest quality coffee sourced through the AAA Program, Nespresso provides incentives to encourage entrepreneurial activity around quality, sustainability and productivity.



Public-Private

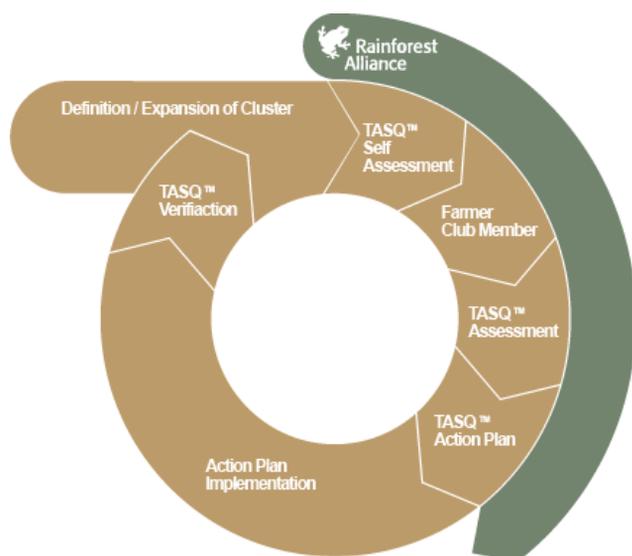


Figure 4: To enter the AAA Program, a farmer has to produce specific aroma profile and quality coffee requirements. Once accepted in the AAA Program, farmers enter the TASQ process, which evaluates their quality and sustainability performance. Together with the agronomist, a tailor-made action plan will be elaborated to improve on TASQ criteria. Performance results will be audited by Rainforest Alliance or SAN representatives.

Challenges to opportunities

Risk factors to coffee farming include urbanisation, civil unrest, climate change, underinvestment in smallholder coffee farms due to low profitability and generation change among farmers. Meanwhile, local access to roads, water sources, yield and alternative income sources, along with culturally ingrained resistance to change, are factors that can affect farmers' ability and motivation to join and comply with the AAA Program. Although the AAA Program seeks to address many of these issues, their various natures, from global to local, and from macro to micro, add complexity to the implementation of the AAA Program.

While the AAA Program sets out specific criteria that are consistent worldwide, no one-size-fits-all approach will deliver sustainable results for farmers. We must therefore tailor its implementation to fit specific contexts with regard to ecosystem and social, political and economic factors. Our AAA team works closely with our partners on the ground to develop local infrastructures, nurture close relationships with coffee growers and deploy initiatives within the scope of the AAA Program with a deep understanding of the local ecosystem, coffee market structure and related social, political and economic factors.

For example, Nespresso has now come together with Fairtrade International and local cooperatives to protect smallholders in the Caldas region of Colombia against the risks of price volatility and other factors contributing to instability in the coffee growing sector. The AAA Farmer Future Program aims to introduce social welfare provisions for AAA farmers and their families such as health and accident coverage and retirement planning.

Meanwhile, the unique specificities of African coffee supply chains, which use a commodity exchange or auction system, prevent farm level traceability and require an adaptation of the AAA approach. In Ethiopia, we have launched efforts to improve coffee traceability to farm level through partnerships with the international NGO TechnoServe, local governments and farming cooperatives. In regions where 100% coffee traceability is currently not feasible, alternative solutions will be sought, including the development of infrastructures to increase coffee processing efficiency.

Achievements

In Colombia, for example, distribution of **water management** systems and the promotion of better water management practices have been a major component of many of the Nespresso PPPs. Many coffee smallholders lack the infrastructure to properly treat wastewater resulting from coffee processing, which leads to water contamination. In 2010, Nespresso with its partners co-funded a new community coffee-processing centre in Jardín, Colombia. More water efficient facilities and waste management systems at the mill are helping to protect the local ecosystems. Instead of an average of 25 litres of water used by the average smallholder to process 1 kg of coffee, only 11 litres of water per kilo are required by the mill for coffee processing. Additionally, the leftover pulp from the milling process is used as compost. Furthermore, the mill has enabled coffee farmers to double their volume of AAA coffee and secure a higher price premium, leading to real increases in farmer's net income. It has also had a direct effect on the quality of the coffee received by Nespresso, with a decrease in rejects of green coffee beans coming from this cluster from around 50% to 0%.

Farmers themselves have spoken about the differences seen since applying sustainable farming practices through the AAA Program, such as the **return of native flora and fauna**. Trees and other native plants not only bring shade and protect from soil erosion, but also provide habitats for animals that may previously have left the area due to agricultural development. **In Costa Rica**, farmers have confirmed seeing the return of exotic birds such as golden orioles, toucans and chachalacas, who lay their eggs in the caña india that create beautiful and effective "living fences" along waterways.

Creating sustainable benefits along the coffee supply chain

The unique holistic approach of the Nespresso AAA Sustainable Quality™ Program pairs enduring relationships with coffee farmers and their communities with direct incentives to focus on quality, sustainability, and productivity. In doing so, the AAA Program clearly plays a significant role in guaranteeing the long-term livelihood of coffee growing communities and safeguarding the ecosystem services upon which we rely to deliver highest coffee quality and consistency to our consumers every day.



MRV

Nespresso integrated approach is having positive impact on quality, the environment and farmers' livelihoods. Research by the International Finance Corporation (IFC), a member of the World Bank Group and a Nespresso partner in projects in Central America observed that farms in Mexico and Guatemala with sustainable practices had higher productivity, and importantly, that these improvements in farm productivity and sustainability were accompanied by higher farm incomes.

On average, net income for AAA farms was 27% higher than for farms that were not part of the Nespresso AAA Program.

Helping farmers increase their livelihood, the AAA Program aims for high yields, while striving to reduce and even reverse environmental impacts. Deforestation is for example prohibited. In the course of more than two decades of work with coffee farms, Rainforest Alliance agricultural specialists can attest to the fact that a coffee farm, which is properly managed, forested and meeting the criteria of the AAA Program or SAN standard, is very similar to a natural forest. It has the same benefits of supplying water, nearly the same biodiversity and it helps control climate change.

Monitoring impact

Measuring and tracking the impact of the AAA Program on farmers, their communities and the environment as a whole remains a key challenge. While Nespresso has commissioned research by external agencies in order to monitor and measure project impact, there remains potential for strengthening long-term monitoring to measuring the global impact of the program as it expands.

Through close collaboration with suppliers, Nespresso has also been working to improve the internal traceability of the AAA Sustainable Quality™ coffee. This includes the development of a farmer database, which makes it possible to track quality, progress on sustainable agriculture practices and improvements in farm management.

So far, studies indicate that our integrated approach is having positive impact on quality, the environment and farmers' livelihoods. Research by the International Finance Corporation (IFC), a member of the World Bank Group and a Nespresso partner in projects in Central America observed that farms in Mexico and Guatemala with sustainable practices had higher productivity, and importantly, that these improvements in farm productivity and sustainability were accompanied by higher farm incomes. On average, net income for AAA farms was 27% higher than for farms that were not part of the Nespresso AAA Program.

Another study, conducted by the independent monitoring organisation CRECE and using the COSA methodology¹, surveyed more than 1,000 Colombian coffee farmers to measure the impacts of the Nespresso AAA Program over three years. It found that the AAA farms surveyed demonstrated 22.6% better social conditions, 41% better economic conditions and 52% better environmental conditions than non-AAA farms. Interestingly, the gap between non-AAA farms and AAA farms is widening in terms of sustainability outcomes. Between 2009 and 2011 index levels for non-AAA farms were generally flat or declining, while those for AAA farms increased.

The study also highlighted the higher prices paid to AAA farmers for their green coffee in the form of premiums and the effect this had on coffee farmers. Net farmer income, economic stability and social conditions all improved for AAA farmers. On top of that, AAA farmers progressively increased the amount of green coffee they sold to Nespresso.

¹ The Committee on Sustainability Assessment (COSA™) is a consortium of institutions promoting sustainability in agriculture with credible and globally comparable information based on quantifiable evidence. COSA provides accurate measurement of recognized sustainability indicators along social, economic and environmental lines. thecosa.org



Future Outlook

Scaling up the AAA Program

A sourcing program such as the AAA Program takes time to implement. We are making significant progress and have seen the number of farmers who are part of the AAA Program increase from 500 ten years ago to over 56,000 today. Nespresso is now sourcing 80% of its coffee from the AAA Program.

Our outlook remains positive, as we scale up the deployment of the AAA Program to integrate more farmers and new countries. India and Ethiopia were added in 2011 and 2012, respectively, and we have now announced an outlook for Africa in 2013-2014 with expansion of the program in Ethiopia and Kenya and development in South Sudan. This will contribute to our goal of sourcing 100% of our coffee from the AAA Program. Every step of the way, we seek ways to learn from our experiences to refine the program, increase sustainability and expand its scope to include local and regional PPPs.



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