

GUIDELINE ON

Coffee



Our goal is to source
100 per cent certified
coffee for all our
REWE and PENNY
private label coffee products
by the end of 2020.



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I. UNDERSTANDING AND SCOPE

As a leading international trading and travel and tourism company, REWE Group is aware of its special role as an intermediary between manufacturers, service providers and consumers. The production of REWE Group private label products has an impact on people, animals and nature. REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels. In its "Guideline for Sustainable Business Practices", REWE Group acknowledges its environmental and social corporate responsibility. The values described therein form the foundation for the responsible actions of the company (REWE Group 2011).

The present guideline specifies the requirements and measures of REWE Group for a more sustainable coffee sector.

With this guideline, REWE Group would like to make its employees and partners in the supply chain aware of the importance of a more sustainable coffee sector and highlight measures and individual goals in this sector. The present guideline defines a binding framework for REWE Group's actions and the business relationships with contractual partners. Defined requirements and targets are consistently reviewed, and new measures and targets are agreed as required. In addition, the guideline is updated on the basis of current trends and developments.

The scope of the guideline covers all private label coffee products of REWE Group, which are sold in Germany by REWE and PENNY.

On the basis of the systematic sustainability commitment described here, the PRO PLANET label can be awarded to the corresponding products.

REWE Group aims to improve social, ecological and economic conditions in coffee-growing countries.



Photo: © CLAC

II. ISSUES IN THE VALUE CHAIN OF COFFEE

Coffee is very popular among Germans: Most of them drink 3 to 4 cups a day (Statista, 2019). The average per capita consumption amounted to 162 litres in 2017 (Deutscher Kaffeeverband [German Coffee Association] 2018).

Even though coffee plays a pioneering role in striving for greater sustainability and certified commodity flows within raw materials, there are still a lot of challenges. Low coffee prices at the New York and London coffee exchanges, low prices for coffee producers, regional harvest losses due to climate change and a lack of incentives for the younger generation constitute urgent threats for the availability of the raw material coffee.

At the same time, demand is constantly on the rise: According to extrapolations, the demand for coffee will double global coffee production by 2050 (World Coffee Research 2017).

For successful coffee cultivation a moderate climate, protection from sun and wind as well as good soil conditions and rainfall are crucial. Figure 1 shows the most important producer and consumer countries. In most of the coffee-producing countries, coffee is an export good and is not consumed to a significant extent. Exceptions to this are Brazil and Indonesia.

Background: Coffee cultivation and supply chain

Coffee is cultivated around the equator in the so-called “coffee belt”. Every year, around 140 to 150 million bags (60 kg per bag) of green coffee are produced on a surface of approx. 10 million hectares.

Coffee-growing regions and the most important coffee-consuming countries

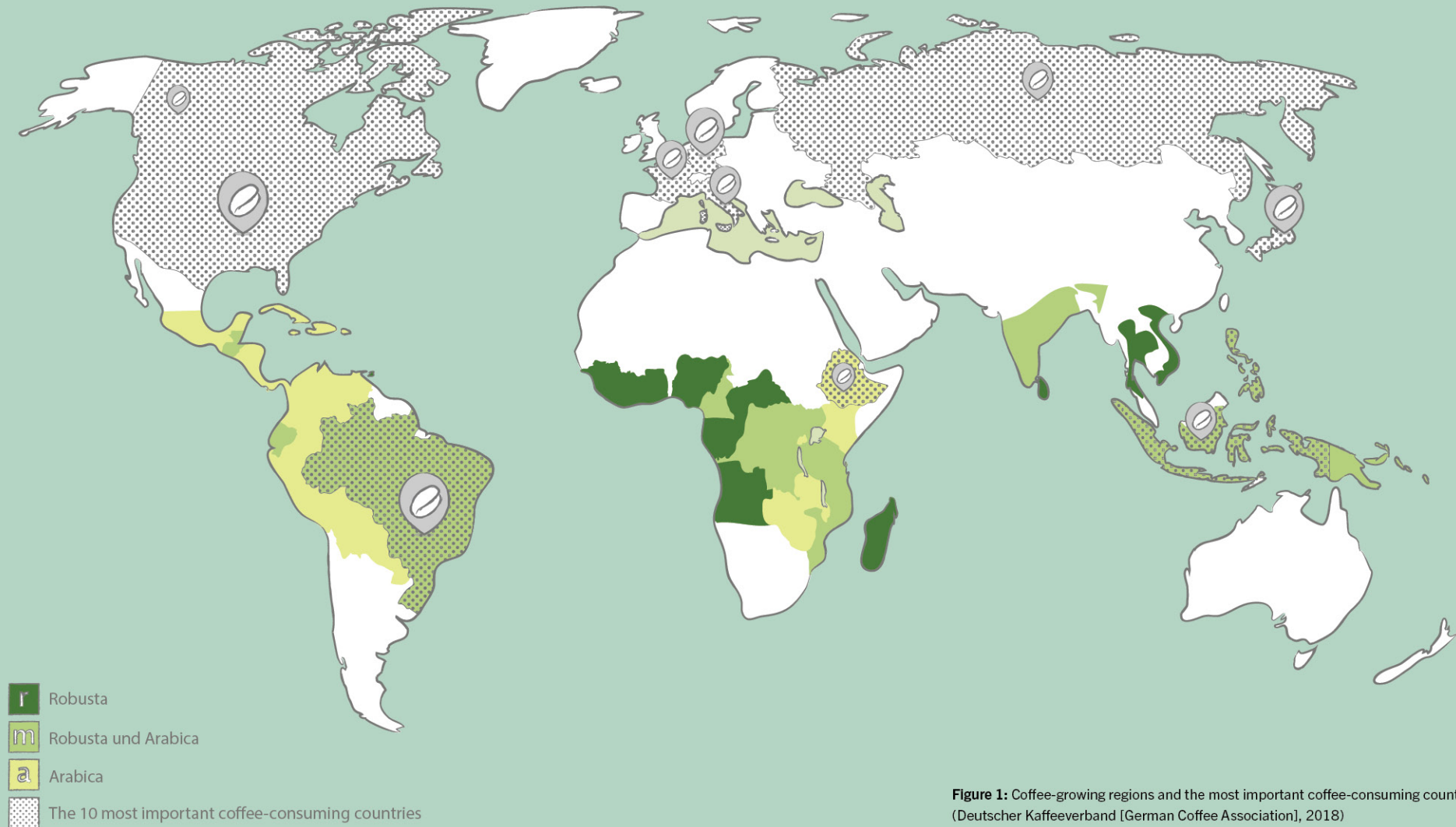


Figure 1: Coffee-growing regions and the most important coffee-consuming countries (Deutscher Kaffeeverband [German Coffee Association], 2018)

The coffee supply chain

Depending on their geographical location and altitude, coffee beans are mainly harvested between September and December north of the equator and between April and August south of the equator. The harvest period is usually between ten and twelve weeks and harvesting is done manually or mechanically, depending on the size of the farm. Since coffee cherries do not have a long shelf life, first processing usually takes place at the producer level. The coffee cherry consists of skin, pulp, mucilage, parchment, silver skin and coffee bean. By means of wet processing, the cherry skin and pulp are removed. Then the coffee is fermented and dried. In dry processing, the coffee bean is dried within the coffee fruit. The coffee is then peeled in special mills, leaving the pure coffee bean, known as "green coffee", and then sorted according to quality (size, colour, density). In most cases, the green coffee is transported to the port in 60 kg jute bags or in bulk form in containers and shipped from there to the destination countries. From the importer, the coffee goes to the roaster, who roasts it, decaffeinate it or processes it into soluble coffee powder, as required, and packages it.

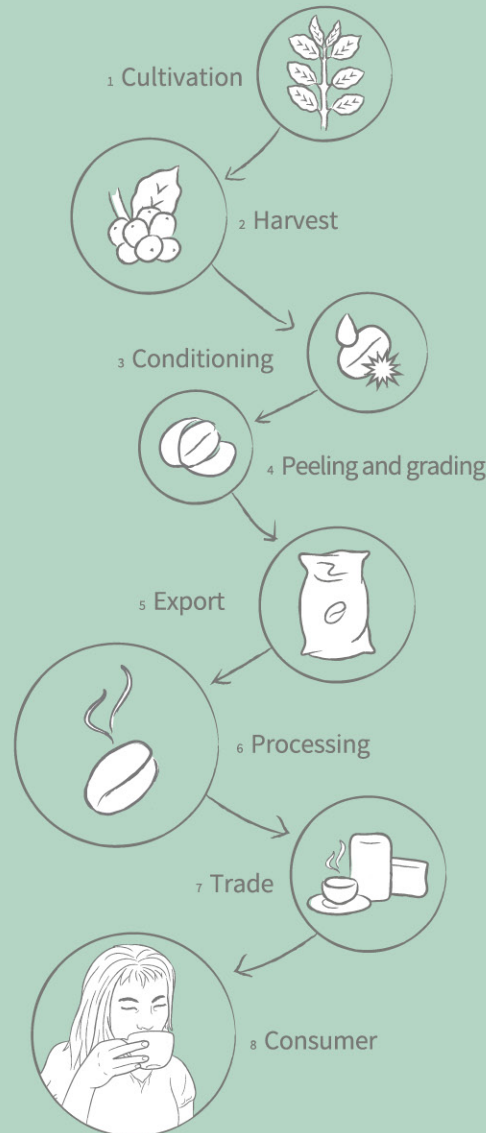


Figure 2: The coffee supply chain

2.1 Economic and social issues

Coffee is grown both by smallholders and on large plantations. Most of the harvest comes from farms smaller than five hectares (Samper, Giovannucci & Marques Vieira, 2017). It is estimated that around 12.5 million families worldwide are engaged in coffee cultivation (Enveritas 2018).

For smallholders, the yields are often insufficient to secure their livelihoods. This is due to low prices, low productivity and (too) small cultivation areas. The smallholders' bargaining power in the supply chain is low – especially if they do not belong to a farmers' organisation – as they often have to sell their coffee to intermediaries. Access to market information and solid training as well as knowledge and investment resources to increase productivity are usually not available. In addition, the volatility of coffee prices on the world market leads to planning uncertainty and exacerbates local challenges. This also means that fewer and fewer children are following in their parents' footsteps to become coffee farmers and that there may be no next generation of coffee farmers.

The lack of profitability of coffee cultivation, especially at the level of smallholders, can lead to child labour. When resources are scarce, the children of the producer families often have to help their parents on the farm. As a result, they may miss school lessons and are not even able to go to school at all (International Labour Organization, 2014).

On the large plantations, the coffee is often picked by seasonal workers, who frequently are migrants or migrant workers. Written employment contracts are rare. The working conditions are hard and the workers are often paid according to quantity, which leads to high performance pressure and many overtime hours.

As one of the most important global commodities, coffee provides a livelihood for approximately

12.5 million

smallholder families worldwide (Enveritas 2018).

Income is generally low. Occupational health and safety is often inadequate, and some workers are exposed to pesticides on a health-threatening scale. Forms of modern slavery, in which workers are bound to their employers or labour agents by financial debts, have been found on plantations in Côte d'Ivoire, Guatemala, Mexico and Brazil (Verité 2018).

2.2 Ecological issues

The major ecological challenges in coffee cultivation, apart from climate change, are related to the natural resources of soil and water. Soil erosion and poor soil quality are widespread. Producers often lack knowledge of local soil conditions, so that fertilisers are too much or too little. This means that the plant is not optimally provided with nutrients, which is reflected in low crop yields. Cultivation on large-scale monoculture plantations and the widespread high use of pesticides impair biodiversity. In addition, some regions (e.g. Vietnam) rely heavily on irrigation for coffee cultivation and partly overwater the cultivation areas, putting a strain on local water resources.

Climate change is exacerbating the existing challenges. As a consequence of rising temperatures and varying amounts and times of rain current growing regions are becoming less suitable (International Coffee Organization, 2018).

A temperature difference of as little as 0.5 degrees Celsius has an effect on quality and yield (The Climate Institute, 2016), as plant diseases and pests spread more quickly under changing climatic conditions. Especially areas under cultivation in lower altitudes are affected by climate change. In many growing regions, cultivation is therefore shifting to higher, still forested areas, resulting in increasing deforestation.

Even though harvest volumes have been steadily increasing in recent years (International Coffee Organization, 2019), current challenges point to the possibility of a stagnation or even reduction of supply in the medium to long term. It is therefore important to actively address the social and ecological challenges, in particular the lack of economic efficiency.

III. MANAGEMENT APPROACH OF REWE GROUP

Sustainability is firmly anchored in REWE Group's corporate strategy. For REWE Group, this means: Promoting more sustainable product ranges and ensuring fair treatment of partners and suppliers, acting in an environmentally and climate-conscious manner, assuming responsibility for its employees and taking responsibility for contributing to a sustainable society.

Within the sustainability strategy, the "Green Products" pillar bundles all activities aimed at making purchasing and production processes more sustainable and thus developing more sustainable product ranges. REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels and addresses the effects. Through all activities in the "Green Products" pillar, REWE Group would like to fulfil these expectations and has developed a strategy with which the effects can be identified and evaluated in order to take effective countermeasures.



The strategy is implemented through a comprehensive management approach that defines the principles and instruments for carrying out the measures. All levels of the management approach are oriented towards the three defined fields of action:

- People
- Animals
- Environment

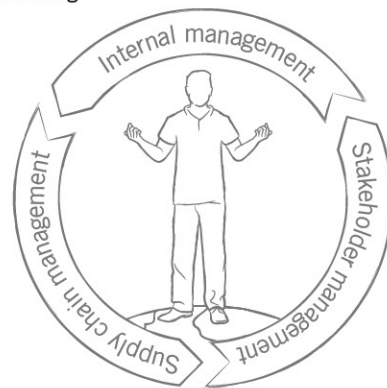


Figure 3: Fields of action of the “Green Products” pillar

“People” and “Environment” are the only relevant fields of action for the raw material coffee. These fields of action are dealt with at three levels, which form the management approach:

Internal management

The aim is to further integrate sustainable procurement into REWE Group’s purchasing processes in order to take sustainability aspects into account in every internal purchasing decision. The company lays the foundation for concrete activities through strategic and organisational projects. For example, REWE Group contributes to internal awareness by providing risk analyses and briefings, coordinating binding targets with the purchasing departments and providing training on sustainability topics. Internal reporting enables the continuous further development within the individual sustainability topics. External communication creates transparency vis-à-vis stakeholders. This is why the Purchasing and Sustainability Departments work in close cooperation.



Supply chain management

Risks in the supply chain are allocated to the three areas of people, animals and the environment. REWE Group addresses the sustainability risks that arise with regard to these fields of action in the supply chain in a targeted manner through systematic supply chain management which is characterised by close cooperation with suppliers and commitment at the production site and the raw material production level. As a first step, REWE Group’s supply management increases, where required, transparency along the supply chain for the private label products. In this way, risks can be identified and prevented more easily.

In order to further consolidate the issue of sustainability in the coffee sector within the company, purchasing decisions for roasted coffee must be based not only on quality and price, but also on aspects of sustainability along the supply chain.

In addition, the integration of sustainability is promoted as part of the supplier evaluation. By raising contractual partners’ awareness and creating obligations for them, specific prerequisites are put in place to make the entire supply chain more sustainable. As far as this is stipulated in the specifications, the requirements are also an integral part of the supplier contracts and are checked by REWE Group’s Sustainability Department in the purchasing process.

Audits and standards are intended to improve sustainability on a broad basis. If the requirements are not met by the suppliers, the further procedure is discussed and decided on the grounds of a recommendation by the Sustainability Department. REWE Group reserves the right to impose sanctions in the event of deliberate gross non-compliance with the requirements. In principle, REWE Group relies on individual measures and sustainability projects for supplier development. Existing systems are used in audits and, above all, in training courses in order to pool own strengths with other partners and to bring about joint improvements.

Although the challenges are most noticeable in coffee cultivation, it is up to the entire chain to find solutions. REWE Group is in direct contact with suppliers and customers and thus forms a decisive link between manufacturers (coffee farmers as well as roasters) and consumers.

REWE Group would like to take advantage of this important lever function.

Stakeholder management

The challenges for dealing with sustainability risks in the production of private label products are often rooted in global trading structures and influenced by political and social conditions. Good stakeholder management is therefore an important starting point for identifying the relevant topics and implementing the sustainability strategy. REWE Group engages in a continuous exchange with stakeholders such as the Sustainability Advisory Board. REWE Group also organises regular dialogue events.

Other important elements include participation in external events, industry initiatives, partnerships, commitment to the further development of sustainability standards and monitoring relevant developments at political and regulatory level.

Consumer education also plays an important role in stakeholder management. Consumers need to understand the importance of more sustainable products in order to keep them on the market in the long term. With this in mind, REWE Group informs its customers about the origin and particularities of its coffee private label products e.g. as part of ProPlanet.

REWE Group cooperates with various certification systems to improve sustainability in the coffee sector.

Fairtrade: The Fairtrade label stands for improved working and living conditions for farmers and employees in agricultural production in Africa, Asia and Latin America. Compliance with international standards and Fairtrade requirements is monitored by independent bodies. Fixed minimum prices and premiums for joint projects should offer farmers and employees greater planning security and create fair trading conditions. Child labour and forced labour are prohibited. Comprehensive environmental criteria include cultivation guidelines, waste and water management, as well as measures to protect the climate and biodiversity. Deforestation and the use of genetically modified plants are prohibited. Fairtrade maintains a comprehensive prohibition list for pesticides in the conventional sector and also promotes organic farming. The Fairtrade producer networks advise and train local producers and implement projects.

Rainforest Alliance/UTZ¹: The organisation works at the interface between business, forestry and agriculture to meet social and environmental challenges. The power of the markets is used to make supply chains more sustainable. Producers can achieve a higher price by selling certified products.

Rainforest Alliance focuses on environmental and social criteria. The emphasis is on preserving biodiversity and securing a sustainable livelihood by changing land use practices and business practices. Responsible entrepreneurial action and value-oriented consumer behaviour are further key topics.

EU organic logo: The logo identifies products from organic agriculture that have been produced in accordance with the guidelines of the EU Eco-Regulation. Organic agriculture refrains from using chemical synthetic pesticides and fertilizers, among other things, in order to promote the preservation of biodiversity and protect the climate. The rules cover cultivation and processing as well as trade, and compliance is verified by regular checks.

German Organic Seal: The best-known organic label in Germany identifies foodstuffs that have been produced and inspected in accordance with the criteria of the EU Eco-Regulation. The use of the label is voluntary and can be used in addition to the EU organic logo. It stands for organic agriculture and value-preserving food processing.

Naturland: The organic cultivation association Naturland defines strict guidelines for the cultivation of organic food for its members. These guidelines focus on a holistic approach, sustainable management, nature and climate protection in practice, securing and preserving soil, air and water as well as consumer protection. With its guidelines, Naturland also covers areas that are not regulated by the EU organic logo – for example human rights and employment requirements such as free choice of workplace, freedom of assembly and access to trade unions, equality, children's rights and health and safety are also taken into account for certification. The association operates internationally and promotes organic farming worldwide.

¹ In January 2018, the standard organisations UTZ and Rainforest Alliance merged and have since been operating under the name Rainforest Alliance. The new standard will be available from 2020

PRO PLANET Label: With the PRO PLANET label, REWE Group has developed a reliable orientation aid for consumers. Besides coffee, the label is used for other products and specifies in concrete terms the social or ecological added value offered by the respective product. As part of the PRO PLANET label awarding process, REWE Group aims to analyse and systematically reduce problems in the value chain. A clearly regulated award process, accompanied by an independent Sustainability Advisory Board, ensures that the PRO PLANET label stands for effective improvements. Thus, the PRO PLANET label enables a purchase decision based on comprehensive information and helps to promote more sustainable consumption across the board.

IV. REQUIREMENTS AND MEASURES



REWE Group has laid down the basic values that apply to all business relations with REWE Group's contractual partners in its Guideline for Sustainable Business Practices. This includes respect for human rights, labour and social standards, environmental protection and animal welfare. For coffee products, REWE Group describes these requirements in more detail below.

All of REWE Group's private label suppliers are committed to adhering to the Guideline for Sustainable Business Practices.

Photo: © Fairtrade/Montoya

REWE Group's requirements and measures in the coffee sector are based on two pillars. On the one hand, REWE Group formulates requirements for its suppliers with regard to social and ecological criteria for green coffee. On the other hand, it supports coffee farmers in local projects.

In addition, suppliers of REWE Group's private label coffee are obliged to supply only coffee which is certified according to Rainforest Alliance/UTZ or Fairtrade.

For organic products, suppliers have to comply with the criteria of the respective organic standards. As the organic labels, with the exception of Naturland, do not cover any social requirements, additional certification according to a social standard, e.g. Fairtrade, is desired.

Moreover, REWE Group requires its suppliers to fully disclose their entire supply chain on request. The use of certified coffee supports this traceability: Naturland ensures that raw materials can be traced back to the producer along all trade stages. The Fairtrade code of the Fairtrade certification system provides traceability and transparency for consumers. Rainforest Alliance/UTZ also ensures the traceability of the coffee.

4.1 People

In the area of "People", the certification systems recognised by REWE Group cover the following requirements for producers:

- Compliance with international and national laws and the core labour standards of the International Labour Organisation (ILO)
- Prohibition of child labour and forced labour
- Right to freedom of association and collective bargaining
- Prohibition of all forms of discrimination
- Equal wages for work of equal value
- Conclusion of employment contracts for staff employed for three months or more
- Protection of workers' health and safety

Furthermore, Fairtrade guarantees a certain minimum price for the raw coffee to protect farmers in case of decreasing world market prices. In addition, the Fairtrade premium supports social, economic and ecological joint projects of the respective cooperatives. Every farmer organisation determines the topics and design of these projects itself.

The certification systems are committed to protecting the health and safety of coffee farmers and workers through various measures. Appropriate protective clothing must be worn where necessary, and coffee farmers must train their employees on the correct and safe use of pesticides.

Fairtrade and Rainforest Alliance promote the equal participation of men and women. Specific training opportunities, access to hygiene articles and initiatives for financial independence to support women are also offered.

The certification systems promote the right of employees to form workers' organisations.

In addition, certification systems provide procedures for the anonymous submission of complaints. This gives employees the opportunity to address grievances at an early stage independently of audits.

4.2 Environment

In the area of "Environment", the certification systems recognised by REWE Group cover the following requirements for producers:

- Compliance with national and international laws, e.g. environmental laws
- Avoidance of soil degradation
- Preservation of soil fertility
- Restriction of the use of synthetic pesticides
- Careful handling of chemicals
- Restriction of the use of synthetic fertilisers
- Protection of areas worth preserving
- Protection of biodiversity

The standards go beyond national requirements in their restriction of plant protection products. In organic farming, there is an explicit list of active substances approved for plant protection.

The Rainforest Alliance/UTZ pest control programme focuses on the prevention of pest infestation and plant diseases. Only the controlled use of biological and chemical pesticides in accordance with the Rainforest Alliance's Standard for Sustainable Agriculture is permitted. For Fairtrade certification, producers must receive regular training in the use of integrated crop protection measures. The use of pesticides is to be reduced to the greatest possible extent.

The certification systems require producers to establish an efficient water management system to reduce water consumption and pollution of water sources. The measures also focus on the recourse to natural means for water reduction. In addition, training is provided on how to recycle and recirculate water.

Certification systems such as Rainforest Alliance and Fairtrade also offer further training on more climate-friendly cultivation methods for coffee farmers. The aim is to impart specialist knowledge and prepare coffee farmers for the challenges of climate change. It also supports the implementation of climate protection projects, such as switching to renewable energy sources.



Photo: © Fairtrade/Montoya

Project work at the origin: The Incahuasi Cooperative

REWE Group has had a special partnership with the Fairtrade coffee cooperative Valle de Incahuasi in Peru since 2009, in which it guarantees the purchase of the coffee produced there. Together with the cooperative, REWE Group implements measures and projects to counter climate change and increase farmers' incomes.

The cooperative consisting of around 475 farmers produces REWE Feine Welt coffee, which is certified according to Fairtrade and organic standards. The organic cultivation of the plants ensures that the sensitive ecosystem of the Andes is not disturbed. The high quality of the beans is not only due to the careful cultivation methods, but also to the special location of the cooperative: The coffee beans are cultivated at altitudes of up to 2,200 metres.

After the harvest, the cooperative conducts tastings of the beans and, following appropriate controls, the beans are transported in vans to the next largest city, Andahuaylas. From there they are transported to Lima, and finally roasted in the Ruhr area.

Photo: © Fairtrade/Montoya



With the "Incahuasi +" project, REWE Group and Fairtrade took cooperation with the coffee cooperative to a new level at the end of 2018. The partners support the coffee farmers in further increasing the productivity of their plantations and thus improving their income. In training courses on good agricultural practice, knowledge is provided on how coffee diseases can be fended off for example through biological means and how the use of shade trees can improve biodiversity and mitigate the consequences of climate change. Measures to promote women and support young people are also implemented. The women take part in activities of Fairtrade Womens' School of Leadership. In various training courses, women acquire competences in the areas of finance, negotiation and decision-making, which also strengthens their attention to gender equality issues and their self-confidence. The activities for young people aim to strengthen their commitment to coffee production and participation in the cooperative. With this help for self-help, REWE Group wants to further support the cooperative as a long-term partner and strengthen sustainable coffee cultivation.

The path of Incahuasi coffee

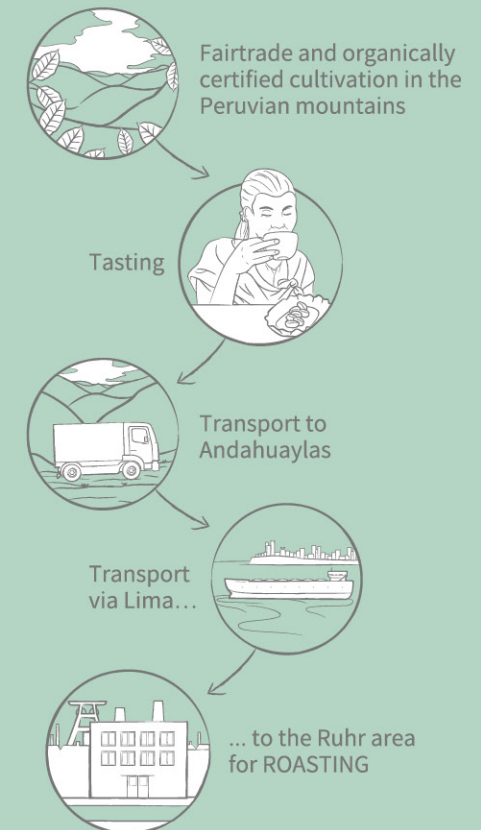


Figure 4: The path of Incahuasi coffee

V. OBJECTIVES

- **Objective 1: Certified Coffee:** REWE Group has set itself the goal of sourcing 100 per cent certified coffee for its REWE and PENNY private labels by the end of 2020. For this purpose, it relies on the Rainforest Alliance/UTZ and Fairtrade certifications as well as on several organic standards.
- **Objective 2: Long-term collaboration with cooperatives:** REWE Group strives to establish long-term cooperations with the cooperatives from which the coffee for REWE's private labels is sourced wherever possible.
- **Objective 3: Transparency:** REWE Group endeavours to make information about the origin of individual coffee products more transparent to its customers in the future.

VI. REPORTING AND COMMUNICATION

REWE Group is convinced that transparency and the provision of comprehensive information are important components of successful sustainability management and can also contribute to the promotion of ecological and social aspects in the coffee supply chain. REWE Group reports regularly and publicly on the progress made in implementing the measures and achieving the goals outlined. This is done through press releases, via the REWE Group website or via the sustainability report of the Group. REWE Group also runs communication campaigns for its customers in order to raise their awareness for more sustainable coffee cultivation.

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The dialogue on the topic of coffee is of great importance to us. Please contact us with suggestions and questions at: nachhaltigkeit@rewe-group.com

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