

Good morning.

I am the founder and CEO of a company that trades coffee as a raw commodity. This means procuring it from its place of origin, selling it to coffee roasting companies for future delivery and then physically moving it, intact from wherever we bought it to wherever we sold it. This can be from the Congo in central Africa to Tokyo.

Last year we spent \$95m buying around 24000 metric tons of coffee from farmers in 18 countries and then sold and shipped this coffee to 400 clients in 23 countries around the world. It is a truly global industry.

The place that I occupy is the unseen middle. the green coffee traders that act as the conduit, the bridge between coffee growers and the companies that roast and sell their coffees.

In the last twenty years, coffee has taken me to 42 countries around the world. I have had some incredible experiences along the way.

I have met a lot of people from diverse cultures and backgrounds along the way and keep finding out we are all pretty much the same. We share the same hopes and aspirations. The same need for safety, dignity, justice and belonging. What we don't share in is equal access to resources like education and credit.

These differences in access to resources often affect the way we perceive both ourselves and others and profoundly affects our commercial behavior. This, in turn, has influenced the shape and culture of supply chains, particularly agricultural supply chains.

Powerful supermarkets, in pursuit of market share and profit, may seek to drive down costs from front line suppliers, with the unintended consequence being that farmers, the raw material providers, on the other end of the supply chain, are forced to engage in socially and environmentally damaging practices in order to absorb this cost pressure and keep their heads above water.

There appears to be a strong disconnect between retail market forces and the real costs of ethical and sustainable farming. This is graphically easy to illustrate for smallholder farmers in developing countries, but harder to grasp in developed market economies where interest rates, debt structure, cost of transport and exchange rates can make it difficult to compete with larger, better leveraged competitors.

This is true to our business. We continue to struggle to grow sales to large clients that require deferred payment terms as our Weighted Average Cost of Capital is more than double that of some of the large multi-nationals we compete with.

While coffee farming as a tropical crop, is far away from British farming, there is relevance and perhaps lessons to share as we all face the growing tension of economic austerity and the pressure to constantly raise standards.

There is a conversation currently taking place in the global coffee industry about defining and acting on sustainable future. As the evidence grows that we all will need to change the way we acquire, consume and discard, it is a conversation that every single industry will have to have at some point in the future.

So what is coffee's story? Why does the coffee industry feel ahead in this conversation? How is the conversation playing out in the market place and in the supply chains to farmer level?

To answer these questions, I would like to share a sequence of events in my coffee career that have influenced and shaped my conviction on what Falcon as a business needs to look like and do to capitalize on the opportunities that come with enormous upheaval of the old ways and an unclear path to the future. What we need to do to survive and thrive.

Our mapping of Falcon's strategy stem as much from failure as success. Repeated failure. Almost fatal. The hardest lessons best learned, our parents like to tell us. Looking back, I have been a slow learner.

As a South African, I began my coffee career in Africa, working for a small tea and coffee brokerage firm. We focused almost exclusively on Zimbabwe, at point handling over 90% of the coffee crop and probably a similar percentage of its tea production. Then, in 1999, Robert Mugabe, having lost a referendum, began confiscating white-owned farms, dismantling the national economy and devastating the coffee industry.

Seeing the writing on the wall, I began working in Zambia, a land locked country with a wealth of subterranean water in aquifers and only 7% of its arable land under cultivation. with a small but thriving coffee community. Then, during the commodities super-cycle, Copper prices recovered to levels no seen since the Vietnam war. Zambia's Copper Belt is a massive producer. The Kwacha valued against the dollar, oil prices drove up transport and agri-chemicals costs and then the Zambian government increased the minimum wage by 30%. This perfect storm drove coffee farmers to uproot their labour intensive, price volatile coffee trees for mechanised food crops. My supply base disappeared.

On the invitation of USAID, I worked to rejuvenate the coffee industry in Angola in south west Africa. A country of incredible natural resource wealth, devastated by 27 years of civil war, fed and funded as a proxy conflict during the cold-war years. Until the early seventies, Angola was one of the world's largest coffee producing countries.

After building a small export operation over a period of two years, we were forced to close down. As an oil rich country with war ravaged infrastructure and a net importer of all things, the cost of running a startup operation with very limited export volume meant that we had to make such high margins that we could not pay the farmers a decent price for their coffee. The economics of the world market price of coffee at the time, versus overheads in Angola meant we had to drive down prices to the farmers to below sustainable levels. We shut the operation down.

While in Angola, I received an invitation to set up a coffee operation in western Democratic Republic of Congo. In hindsight, I realised that sometimes optimism and stupidity run side by side.

Over two years we built a coffee mill and export operation in region of the country that had not seen foreign investment since the Belgians left in the sixties. We were lured to invest further and further by local government and business people, working in collusion, until it became expensive to leave. At this point everything began to change. Export documents cost more, coffee theft escalated and the values on everything changed.

These repeated failures took me to a very dark place, both professionally and personally, rocking myself belief as a business person.

Then I read a book by the economist Paul Collier, called the Bottom Billion. Published in... In this book, Mr Collier suggests that the 6 billion of us rising out of poverty are responsible for the 1 billion falling into the abyss of worsening poverty. He puts forward the idea that when you

remove people's hope and dignity, the moral fabric of society begins to decay, leading to extremism, radicalization and rogue states, citing Somalia as an example. We can probably think of a few more to add to that list today.

The piece that caught my attention was his list of the four poverty traps that identify the states where the bottom billion reside.

1. Poor governance
2. In conflict / post conflict
3. Land-locked with poor neighbours
4. The Mineral Wealth Trap

All four of my operating countries fell into at least two of these traps. I then took a further step back and looked at the world coffee map of producing countries.

Peru and the Shining Path, Colombia and the FARC, Bolivia has had nearly 200 coups since independence. Civil war in Nicaragua, El Salvador, Honduras and Guatemala. Narco trafficking in Mexico. Over to Africa. Genocide in Rwanda, the Derg in Ethiopia, ethnic cleansing in Kenya, *di Amin in Uganda, war in Congo, Angola and Zimbabwe. Over to Asia and again conflict and poor governance in Vietnam, Cambodia, Indonesia and Thailand.*

The socio economic backdrop of global coffee production is that 30 million small holder farmers produce more than 50% of the world's coffee across 50 of the world's poorest countries. 21 of these countries feature in the bottom 30 of the World Bank's list of countries by economic wealth. Of the IMF's list of 40 Highly Indebted Poor Countries, 25 produce coffee. This is the base of the matrix that makes up our industry.

Our \$100 billion retail coffee industry relies entirely on an enormous number of people made vulnerable through lack personal security, food security, with little access to education, resources, credit and markets.

With decades of growth into Asian and developing markets ahead of us, the burning question being contemplated in our industry is, "Where will the raw material come from to feed this growth"

The paradigm shift in coffee is that altruism, the caring for the welfare of others, (in this case smallholder coffee farmers), is not about philanthropy; not about social justice. It is about the bottom line. And the bottom line is the universal language that every single business speaks. We need to radically change the quality of life for millions of people if we are to secure the future of our industry and continue to prosper. Farmers need to live with dignity and the hope that farming offers a secure future for them and their families.

So how do you eat this whale? The way you eat any whale. One bite at a time. Our bite has its genesis in Rwanda. Rwanda is tiny, land-locked and next to Malawi, the most densely populated country in Africa. 20% of the largely subsistence farming population are directly involved in coffee production.

We have a sister company, Rwanda Trading Company, that is a coffee miller and exporter and works with about 60 000 farmers across the country. In an effort to improve the lives and economic prosperity of its farmer partners, RTC has designed and deployed an agribusiness training program focused agronomy training and financial literacy. It is a 20 module, two-year training program for both the husband and wife to attend. The program includes a baseline study

and data capture over time to track the metrics. The initial pilot was with 6000 farmers. After completing the program, the average yield increase was 155%, with household income from coffee up 61% in a year that the world price of coffee fell 15%. Where it really gets exciting is that due to the increased export volume and profitability of Rwanda Trading Company, the initial costs related to the training program were recovered by year three. This is Zero Cost Sustainability.

The program has extended to enroll 24000 farmers across Rwanda and Tanzania and we are moving the program to western Uganda in the Rwenzori mountains on the Congo border.

We are now trying to figure out how we could use low cost technology to create efficiency in everything from data capture to payments and farmer training.

Other initiatives we are involved with include World Coffee Research. A non-profit seeking to breed climate change resistant varieties without turning to GMO. We are seed funders of Program for Gender Equity. 46% of the labour force in smallholder agriculture in developing countries are women. To not address gender inequality, is to exclude half the people involved. We are involved in a bio char project in Peru and are building community supply chains in Nicaragua. In Congo we work alongside East Congo Initiative and Starbucks, tripling the income of 4200 households in one of the most war torn regions on earth.

These are great banners to fly and great stories to tell, but it is tough going. We still have to pay the bills. We still have to buy and sell coffee and make a margin in between. Many companies profess to embrace ethics and sustainability, but are unwilling to make the initial investment or struggle to change their culture and remain focussed purely on price. Some days I feel like Sisyphus pushing that rock up that hill only to see it roll back down.

The winds of change are beginning to blow in our favour. We see a market coming towards us as more and more roasting companies adopt ethical sourcing standards and look to companies like ours to help them figure out credible sourcing policies that protect them legally, meet their clients demands, are cost competitive and feed their brand equity.

We are working hard to become better communicators. Using social media to build our brand and to place ourselves in communities with shared values. Inside and outside of coffee. Story telling about who we are, what we do ,why we do it and who with, is a vital part of educating our clients and their clients, the consumers.

This paradigm shift of altruism for the bottom line has resulted in a seismic change in our business culture. My story is the story of my farmers. Their threats are my threats. Their challenges are mine to help solve. Our buyers needs are what we need to respond to. Our value proposition is built on understanding their needs, not selling what we do. We are all collaborators. We keenly understand that sustainability requires everyone in the supply chain to operate at a profit.

What drives this cultural revolution is what I call the very first building block of all ethical and sustainable initiatives. The one common thing. Traceability. In order to undertake any ethical / sustainable initiative, you must be able to trace the origins of your product.

When you do that, you eventually come across people. Communities. When you connect your products to the people that produce them, you de-commodatise that product. Its journey to you becomes a very human story. That influences its value.

This plays into the rising groundswell of community, local produce, local economies. People want to feel that the choices they make as consumers support ethical behaviour. This represents both a moral obligation and a marketing opportunity.

My personal experience as a UK consumer is in stark contrast to this. As a Tesco's shopper, I noticed earlier this year that I could buy meat and other products under a British farm label. This pleased me as it appealed to my wanting to buy local, to support British farmers and reduce the carbon footprint of the food I ate. Some weeks later I heard a talk on Radio4 about how Tesco's had been challenged as it turns out the farm names were made up. Created in the marketing department. Was this misleading advertising? Tesco's won the challenge.

I was furious. Incensed. I still am. How dare they capitalize on my good intention as a global citizen, to do my small part, by duping me with fake brands, pitched right into that sweet spot of my conscience, for their own financial gain. The other piece of this profoundly, morally corrupt behavior is that they intentionally stop me from supporting you, pocketing the difference I trusted them to pass back to you. My response is that I will never give another pence to that company. And in this day of social media and the peer-to-peer review system, these kinds of stories can go viral, doing untold damage to a brand.

The millennials, the generation that control a growing percentage of disposable income, are less gullible than me. If you don't walk your talk and do what you claim to do, you will be sniffed out, uncovered and lambasted in the very public arena.

The conversation around ethical sourcing and sustainability is not going to stop or turn. It is only going to intensify. To avoid participating is to commit a form of delayed commercial suicide.

Do I believe we in coffee have cracked the code to sustainability? No. We are not even close. While I am excited about all that is happening in coffee, I am not sure our industry will survive in its current health in the decades ahead. Worst case scenarios is coffee production will be so tiny that only oligarchs and tycoons will be able to afford it. Second worst case scenarios is we will all land up drinking a homogenised, mediocre coffee farmed mechanically in Brazil. Falcon would probably cease to exist in either one of these scenarios.

Someone asked me how I saw the growth of Falcon in the future and I responded that we need to mitigate risk by diversifying into other crops and changing our value proposition to our clients.

Rather than behave like any other coffee trading company, we are in the process of metamorphosing into a solution based service platform, where we exist to facilitate and enhance the relationship between farmers and the end users of their produce.

While much of the ethical and sustainable narrative is centered on action, what is key is a change in culture. We need to move from a highly competitive buy low / sell high business model to one more nurturing. One where we recognize the people behind the commodity and the need for everyone in the supply chain to be viable, socially, environmentally and economically and environmentally.

If we recognize that farmers the world over are stewards of the land, of our natural resources, then through our relationship with them, as business people and consumers, we share that stewardship.

Thank you

