

Hearing on International Development: Value Added Through Private Sector Engagement

Testimony of

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Chairman Corker, Ranking Member Cardin, and members of the Committee, thank you for inviting us today. Today's hearing is the latest chapter of our strong working relationship with this committee. Last year at our Farmer Support Center in Rwanda we had the pleasure of welcoming a bipartisan Congressional Delegation which included two Members of this committee. On another occasion, we hosted a senior member of your staff and provided her with an in-depth look into our development work.

Each day at Starbucks we ask ourselves, "What is the role and responsibility of a for-profit, public company?" I hope my testimony today will provide a glimpse into how we answer that question.

With over 11 years at Starbucks and 20 years working on supply chains, I have seen first-hand the impact that development has on rural communities and I know that Starbucks growth and success in the United States depends on the success of coffee farmers abroad. Coffee is the second most traded commodity after oil and 25 million farmers around the world rely on income generated from growing coffee. Coffee is grown in challenging regions, often with war-torn pasts but we have seen coffee as a stabilizing force that provides prosperity and economic stability.

Starbucks purchases 3% of the world's coffee, and for over 40 years we have partnered with others, like Conservation International and the United States Government by investing in coffee growing regions because it is good for business. If we have a strong and resilient supply chain, we have limitless opportunity to grow. In fact, we plan on opening 3400 new stores and hiring 70,000 people in the U.S. by 2020.

This testimony discusses four of our key initiatives:

- 100% Ethically Sourced Coffee: Starbucks is dedicated to helping farmers overcome the challenges facing coffee communities. We are committed to buying 100 percent ethically sourced coffee, in partnership with Conservation International through our C.A.F.E. Practices program, an industry-leading set of guidelines and verified by independent third-party organizations.
- 2. Open-Source Farmer Support Centers: To improve productivity and sustainability, Starbucks shares our research and resources through our Farmer Support Centers—located in coffee-producing countries around the world. They're open to farmers regardless of whether they sell to us. Thanks to the support of our customers, we're also donating millions of disease-resistant trees to help farmers fight threats like coffee leaf rust.
- 3. Global Farmer Fund: Through our Global Farmer Fund program, Starbucks is investing \$50 million toward financing for farmers, allowing them to renovate their farm or pursue more sustainable practices.
- 4. Strengthening Coffee Communities: Working through the Starbucks Foundation, we are making grants in rural coffee communities to improve access to clean water, support education and improve food security.

Through these initiatives, Starbucks believes it can increase the prosperity and resiliency of one

million farmers and workers who grow our coffee in coffee communities around the world and, in turn, ensure a strong supply chain as we, a proud U.S. company, continue to grow.

Starbucks Coffee Heritage

Every day, we go to work hoping to do two things: share great coffee with our friends and help make the world a little better. It was true when the first Starbucks opened in 1971, and it's just as true today. Back then, the company was a single store in Seattle's historic Pike Place Market. From just a narrow storefront, Starbucks offered some of the world's finest fresh-roasted whole bean coffees. Today, we have over 22,500 stores all over the world, which serve as neighborhood gathering places for meeting friends and family.

We've always believed in serving the best coffee possible. It's our goal for all of our coffee to be grown under the highest standards of quality, using ethical sourcing practices. Our coffee buyers personally travel to coffee farms in Latin America, Africa and Asia to select high quality beans. And our master roasters bring out the balance and rich flavor of the beans through the signature Starbucks Roast.

According to a National Coffee Association (NCA) economic study, coffee is the most commonly consumed beverage in the U.S. (even more than tap water). But it turns out that coffee touches communities across the country in amazing ways, from generating tax dollars to creating jobs, from the supermarket to the dairy farm. According to the NCA recent economic study:

- The total economic impact of the coffee industry in the United States in 2015 was \$225.2 billion
- Coffee-related economic activity comprises approximately 1.6 percent of the total U.S. gross domestic product
- The coffee industry is responsible for **1,694,710 jobs** in the U.S. economy
- Consumers spent \$74.2 billion on coffee in 2015

Initiative 1: Commitment to 100% Ethically Sourced Coffee

The cornerstone of our ethical sourcing approach is Coffee and Farmer Equity (C.A.F.E.) Practices, one of the coffee industry's first set of sustainability standards, verified by third-party experts. Developed in collaboration with <u>Conservation International</u> (CI), C.A.F.E. Practices has helped us create a long-term supply of high-quality coffee and positively impact the lives and livelihoods of coffee farmers and their communities. C.A.F.E. Practices includes <u>guidelines</u> in four key areas: quality, economic accountability and transparency, social responsibility and environmental leadership. Taken together, the standards help farmers grow coffee in a way that's better for both people and the planet. Today, C.A.F.E. Practices includes over 300,000 coffee farmers in 25 countries that are committed to improving working conditions and spanning more than 170,000 hectares of land committed to sustainable growing practices.

Starbucks is proud to have reached the milestone of 99 percent ethically sourced coffee. However, we are not done yet. We will continue to work with the last one percent to bring producers along on this journey with us, like we have done with our Lake Kivu supply chain in the Democratic Republic of Congo, where we are working with farmers to expand our ethical sourcing efforts. Our work with Eastern Congo Initiative (ECI) and its Congolese partners, including USAID, aims to make Eastern Congo a reliable source of high quality Arabica coffee, and to link Congolese farmers to the international marketplace. The Starbucks Foundation has also partnered with ECI to support college scholarships for young women studying agriculture and has invested in local Congolese organizations creating jobs for disadvantaged young adults and former child soldiers in coffee-growing communities.

Initiative 2: Open-Source Farmer Support

Farmer Support Centers

For the last decade, we have been taking an open-source approach with our latest research from places like our Global Agronomy Center in Costa Rica, and sharing our tools, best practices, and resources with growers around the world — whether they sell to us or not. Today's farmers are facing constant challenges and Starbucks is committed to helping them. Starbucks currently operates nine Farmer Support Centers in key coffee producing countries around the world, from Costa Rica to Rwanda. There, farmers get free access to the latest findings of our top agronomists, including new varietals of disease-resistant trees, and advanced soil management techniques. The goal is to build upon traditional growing methods to help farmers continue to improve both the quality of their crops, and their profitability, ensuring the future of high quality coffees for everyone.

Coffee farmers in Colombia, for example, faced challenges maintaining their crops during the country's 50-year civil war. As the largest purchaser in the world of premium Arabica coffee from Colombia, Starbucks is committed to the livelihoods of Colombian coffee farmers. In 2012, Starbucks opened a Farmer Support Center in Manizales, Colombia, to deliver training and agronomy support to Colombian coffee farmers. Two years later, Starbucks forged an alliance with the U.S. Embassy, through USAID, to help farmers focus on their crops with an emphasis on coffee quality. Through this partnership, Starbucks has been able to reach out to more farmers and build up economic stability in the region. As a result, Starbucks became a major buyer of this coffee and has allowed greater market access for this supply chain with other international companies.

"[Previously], coffee farmers were unable to travel in certain areas held by guerrilla forces, which prevented them from obtaining the technical assistance necessary to maintain the health of their crops," said Alfredo Nuño, general manager, Starbucks Farmer Support Center in Colombia. "Through Starbucks work with USAID, we have been able to help 17,500 farmers improve their crops."

"The quality of Colombian coffee is one of the best in the world and the idea behind this publicprivate alliance with Starbucks is to improve its quality even more, to be able to produce more coffee to export and thus contribute to the development of rural areas in Colombia," said Kevin Whitaker, U.S. Ambassador to Colombia.

The initial task of the Starbucks and USAID collaboration was to promote a soil analysis program. "Most farmers here do not use soil analysis because it's cost prohibitive," Nuño said. "By offering the service to them free of charge, they were able to learn so much more about their crops." Starbucks agronomists helped farmers learn how to collect soil samples, which were shipped to a local laboratory for examination. More than 13,000 farmers submitted samples for evaluation. "It took us about a year to collect all of the samples," Nuño said. "We learned that 85 percent of them had similar needs, so we enlisted the support of a local fertilizer manufacturer to develop a formula addressing the nutrient deficiencies of the soil." Farmers who provided the remaining 15 percent of the soil samples received recommendations for existing fertilizers to use or how to build their own formulas to support their crops.

Starbucks also conducted a series of workshops to educate farmers about agronomy and maintaining quality to sell coffee at a premium price. Nearly 8,500 farmers were trained at the 349 workshops organized over the past two years.

Also, proper treatment of coffee processing waste water is key to avoid pollution and the consequent acidification of the soil in the coffee plots. We provided farmers with coffee processing waste water treatment systems (SMTA's methanogenic generators units for waste water treatment), namely those with high volume of coffee cherry processing, or group/common use wet mills. Starbucks Farmer Support Center in Colombia, using the funds made available by the USAID GDA, provided the full amount of all the equipment free of charge to the producer, leaving the preparation and conditioning of terrain and any additional conditioning to the farmers receiving this equipment. The Starbucks Farmer Support Center is not just organizing the installation of the units, but also training the coffee farmers on how to use them in an appropriate manner.

Starbucks remains committed to continue our follow up and assistance to the coffee farmers participating in this program. We believe that the best way to ensure a proper follow up and a true sustainable coffee farming is to participate in the C.A.F.E. Practices program during the lifetime of this agreement, 8,389 coffee farmers joined successfully the C.A.F.E. Practices program. We continue to work with more coffee growers to assist them in becoming better farmers. Additionally, suppliers such as CENCOIC and FNC Cauca Committee were able to sell 5,225 bags (365 metric tons) of coffee produced by beneficiaries of this program during 2016 season. This represents the successful integration of the value chain that started with the USAID/Starbucks GDA productivity improvement program.

In addition to the work underway in Colombia, our other Farmer Support Centers support the unique needs of coffee farmers in the country. Locations of Starbucks Farmer Support Centers include:

- San Jose, Costa Rica opened 2004 (relocated to Hacienda Alsacia in 2016)
- Guatemala opened 2011 (satellite)

- Kigali, Rwanda opened 2009
- Mbeya, Tanzania opened 2011
- Addis Ababa, Ethiopia opened 2014
- Manizales, Colombia opened 2012
- Yunnan, China opened 2012
- Alajuela, Costa Rica Farmer Support Center and Global Agronomy Research & Development Center – opened 2013
- North Sumatra, Indonesia opened 2015
- Chiapas, Mexico opened 2016

Hacienda Alsacia: A Global Agronomy and Research and Development Center
In addition to the Farmer Support Centers, Starbucks is restoring a 240-hectare farm located on
the slopes of the Poas Volcano into a global agronomy and research and development center.
The work happening on this farm will enable the company to provide hands on learning for
farmers to expand its Coffee and Farming Equity Practices (C.A.F.E.), the innovative ethical
sourcing model developed in association with Conservation International to ensure coffee
quality while promoting social, environmental and economic standards.

In addition to supporting resiliency for farmers with techniques that can be implemented around the world, this farm will also influence the development of coffee varietals and provide new insights on soil management practices.

"This investment, and the cumulative impact it will have when combined with programs we have put into place over the last forty years, will support the resiliency of coffee farmers and their families, as well as the one million people who represent our collective coffee supply chain," says Howard Schultz, Starbucks chairman. "It also opens up an opportunity for Starbucks to innovate with proprietary coffee varietals that can support the development of future blends."

Work at the farm will include the development of hybrid coffee tree seedlings at the farm's nursery in collaboration with industry experts to directly address the increased risks to the coffee industry, such as incidences of coffee leaf rust or "roya" in parts of Latin America. In 2015, Starbucks donated thousands of seedlings from five different coffee tree hybrids developed through its research to the Costa Rican Coffee Institute (ICAFE).

Donating 100 Million Trees

To address critical needs in the coffee sector, Starbucks announced that it will make sure 100 million healthy coffee trees get into the hands of coffee farmers that need them by 2025. This effort is part of the company's ongoing commitment to provide comprehensive support to farmers around the world which includes open-source agronomy research, farmer financing and access to information.

This expanded commitment builds on Starbucks One Tree for Every Bag initiative, which launched in September 2015, ensuring that a coffee tree is planted for every bag of coffee

purchased in a participating U.S. stores. The seedlings will replace trees that are declining in productivity due to age and disease, such as coffee leaf rust. More than 25 million trees have been donated thus far with the initial distribution of 10 Million having started in the summer of 2016.

Having already built a successful tree distribution network and as one of the largest purchasers of Arabica coffee, Starbucks can now integrate the purchase of healthy, rust-resistant coffee trees into its green coffee buying program. By working with long-term suppliers, the company will seamlessly ensure that a total of 10 Million coffee tree seedlings per year are available to farmers in need.

Going forward, the company will continue its relationship with supplier nurseries set up in Mexico, Guatemala, and El Salvador as well as look to develop new supplier nurseries in additional coffee regions that would benefit from re-planting. By integrating this into their purchasing behavior and evolving their current initiative, Starbucks expects at least 100 Million trees to get to farmers by 2025. Not only will this ensure that farmers get trees at a critical time, but it will help stabilize the income of thousands of farming families.

This effort will have an amplified effect when added to the work of The Sustainable Coffee Challenge that recently announced an industry wide effort to replant 1 billion coffee trees, to ensure positive outcomes for both productivity and the environment. The Sustainable Coffee Challenge is a joint initiative of over 60 partners including corporations, governments, NGOs and research organizations working together to make coffee the first sustainable agricultural product. A key tenet of the Challenge is to encourage partners to tackle some of the most pressing challenges facing the coffee sector – both individually and via collective action. This replanting effort will be one of the organizations Collective Action Networks and, in addition to Starbucks, is supported by non-profits, government agencies and coffee roasters.

Initiative 3: \$50 Million Global Farmer Fund

The Starbucks Global Farmer Fund is a \$50M impact investment commitment to provide financing to coffee farmers. Since many farmers lack the ability to secure traditional financing through commercial banks, this program fills a gap in financing needs around the world and enables farmers to reinvest in their small businesses. Through these loans, farmers are able to support agronomy, restoration and infrastructure improvements. This work directly influences coffee quality, sustainability and overall profitability for the entire specialty coffee industry.

We began investing in farmer loans in 2000, providing access to credit at reasonable terms is a critical aspect of our farmer support model. By investing in farmer loans, we're helping cooperatives manage risk and strengthen their businesses. Our loan partners made loans in 13 countries in FY16 – including Peru, Nicaragua, Honduras, Rwanda, Guatemala, Mexico, Costa Rica, Colombia, Kenya, Uganda, The Democratic Republic of Congo, Tanzania and Indonesia – to suppliers we both buy from as well as ones we do not. Loan recipients also receive technical

assistance in the form of agronomy best practices, business planning and price risk management training.

Starbucks has also partnered with Root Capital, USAID and other coffee companies to create a \$23M Coffee Farmer Resilience Fund that will provide financial assistance to more than 40,000 farmers combating the devastation of coffee leaf outbreak in Latin America. The Fund will:

- Leverage \$8 million in funds from USAID and partners, including Cooperative Coffees, DOEN Foundation, Keurig Green Mountain Coffee, Open Road Alliance, and Root Capital, to provide on-farm, agronomic trainings on resilient practices to coffee farmers and farmer organizations in Mexico, Guatemala, Honduras, El Salvador, Nicaragua and Peru
- Unlock \$15 million in investment capital for Root Capital, including \$3 million in new investment from Starbucks, through a USAID credit enhancement for long-term financing for rehabilitation of disease-affected fields and short-term financing to stabilize coffee supply chains in Latin America and the Caribbean.
- Enable participating coffee roasters to negotiate the cost of combatting coffee rust into their purchase contracts with farmer organizations to ensure sustainable solutions rather than one-time charitable gifts. The pooled funds will provide technical assistance, leading to sustainable supply chains and increased farmer incomes in the short and long term.

Starbucks has partnered with others to specifically support farmers in Nicaragua. The Inter-American Development Bank (IDB) will provide long-term loans to help Nicaraguan coffee farmers combat the devastating effects of the coffee rust fungus, which has swept through Central America, crippling production and threatening the livelihoods of millions who depend on the coffee industry. The project is a partnership between the IDB, Exportadora Atlantic (a Nicaraguan subsidiary of the coffee trader Ecom), Starbucks Corporation, the International Finance Corporation (IFC) and the Global Agriculture and Food Security Program (GAFSP). This project will help approximately 550 farmers, many of whom work less than 12 hectares, replant and renovate their farms. It will provide them with new coffee varieties that are resistant to the fungus and technical support to improve their agricultural practices.

Initiative 4: Strengthening Coffee Communities

Starbucks has a long history of working with coffee and tea communities to address their most critical needs such as access to water, sanitation, health and education. The Starbucks Foundation awards origin grants to support smallholder farming families in coffee and teagrowing communities. Since 2014, these grants have reached approximately 47,000 direct and indirect beneficiaries. Our grantees are working in remote and rural regions in developing nations to reach these families.

NCBA CLUSA, as an example, was the recipient of a \$750,000 grant from Starbucks Foundation to support coffee farmer livelihoods by providing clean, abundant and accessible water to 25,000 people in 90 Arabica coffee-producing villages in Sumatra, Indonesia. Despite an abundance of surface and ground water in the Sumatran highlands, close to half of the population accesses drinking water from unsafe sources, resulting in a high prevalence of water-borne diseases, such as diarrhea and cholera. According to the government's Ministry of Health, some 30 percent of Indonesians suffer from water-borne disease every year. The shortage of safe water also impacts women and girls, who are often tasked to collect and carry water long distances.

Lack of accessible, clean water also compromises coffee quality in Indonesia. Much of the coffee grown in Sumatra is pulped at the village level and sold in a "wet hulled" state. Farmers who don't have access to clean water recycle the water they need for pulping, leading to bacterial contamination of the hulled coffee and off-flavors.

The three-year project, called Cooperative Water and Sanitation for Health (CoopWASH), will install gravity-fed and deep-well water systems that are expected to provide new sources of water for 80 percent of community members and reduce the workload of women and girls by 75 percent. CoopWASH will significantly increase the amount of household water available for drinking, cooking, hand- and dishwashing, sanitation and coffee pulping. The project will also provide health clinics and schools in the region with clean water sources.

Already, NCBA CLUSA and its local implementation partners, including the Baitul Qiradh Baburrayyan Cooperative and Sumatra Specialty Coffee, have completed six of the water installations funded by the grant—three each in the Indonesian provinces of North Sumatra and Aceh. To embed sustainability into the project, NCBA CLUSA is also developing village water management committees and providing community education on good water use and hygiene practices. Water projects often fail because communities are technically or financially unequipped to maintain complex infrastructure, but the only ongoing maintenance CoopWASH systems require—detailed in a community water management plan—is cleaning the spigots and ensuring good drainage to avoid standing water.

Another example is a three-year, \$500,000 grant to World Neighbors. This project will improve the lives and livelihoods of 4000 marginalized rural ethic families living in 24 coffee-growing communities in the Atitlan and Ch'orti regions of Guatemala through improving community health, nutrition, and water, sanitation and hygiene practices. In both regions, 98 percent of the population is formed by native ethnic groups, and there is a high rate of poverty. As a result of this grant, nearly 4000 people have access to clean water through the installation of chlorination system tanks and clean sanitation through the installation of over 300 latrines for schools and families.

These grants are part of Starbucks comprehensive approach to ethical sourcing. To date, Starbucks has contributed \$15 million in social projects to support farming communities around the world. In 2014, the Starbucks Foundation granted more than \$3.7 million to multiple

organizations who help address relevant needs in specific communities. Each investment is targeted to create a sustained impact in a local community developing the necessary infrastructure to help support systemic, long-term change.

The following organizations are current recipients:

Lutheran World Relief

Location: Colombia

Focus: WASH, coffee wet mills, diversified agro-forestry systems

Eastern Congo Initiative

Location – DRC

Focus: Coop management, coffee washing stations, at risk youth

Mercy Corps, CHAI V Project

Location – India, Guatemala

Focus: Healthcare, nutrition, economic development in tea growing communities

National Cooperative Business Association (NCBA)

Location – Indonesia

Focus: Providing clean water to 27,000 people in 90 Arabica coffee producing villages

Heifer International

Location: Tanzania

Focus: Improving sustainable livelihoods, quality of life for 5,000 smallholder coffee farmers in Mbozi district

Mercy Corps (BUILD project)

Location: Colombia

Focus: Creating more resilient communities with improved food, security, land tensure, and sustainable water management for 1,022 families in Southern Tolima

Seeds for Progress

Location: Nicaragua

Focus: Increasing quality of education in primary, secondary, schools in coffee growing communities in Northern Nicaragua

World Neighbors

Location: Guatemala

Focus: Improved community health, nutrition, hygiene, water and sanitation practices of 4,000 marginalized rural families in 24 coffee-growing communities in Atitlan and Ch'orti.

World Coffee Research

Location: Guatemala

Focus: Increasing farmer incomes through introduction of new rust resistant, high

yielding F1 coffee hybrid varieties.

Conservation International

Location: Mexico

Focus: Implementing a net-positive-impact demonstration that delivers & quantifies positive outcomes for coffee farmers, communities, and water quality in Oaxaca,

Mexico.

Collaborating with Industry to Scale our Impact

We know that the most pressing issues in coffee can't be solved by one company alone, and that the best solutions require everyone coming together to collaborate in bringing about a better future for farmers. Our journey of ethical sourcing requires looking beyond our own supply chain. After achieving our 99 percent ethically sourced milestone, Starbucks asked "what's next, and how can we work with the whole sector to get to 100 percent sustainable coffee?"

Starbucks is a founding member, alongside a growing coalition of industry leaders, of the **Sustainable Coffee Challenge**, a call to action led by Conservation International to make coffee the world's first sustainable agriculture product. The Sustainable Coffee Challenge is convening the sector to sustain the future supply of coffee while ensuring the prosperity and well-being of farmers and workers and conserving nature.

The Sustainable Coffee Challenge, is a joint initiative of over 60 partners working together to make coffee the world's first sustainable agricultural product. Members include coffee producers, retailers, traders, roasters, importers, industry associations, governments, donor agencies and other non-governmental organizations (NGOs) that are building a sustainability roadmap for achieving a fully sustainable coffee sector.

In 2017, the Sustainable Coffee Challenge launched its first action networks to coordinate industry action and investment. By launching Collective Action Networks the Challenge will advance sharing of experience and collaboration to significantly advance our progress toward sustainable coffee production. One of the first Action Networks tackles the issue around aging trees and a focus to support tree replacement or rehabilitation. Starbucks recent commitment to provide 100 million trees to farmers by 2025, discussed above, has a cumulative effect when added to the work of The Sustainable Coffee Challenge who recently announced an industry wide effort to re-plant 1 billion coffee trees.

Conclusion

Starbucks success is linked to the success of the global farmers who grow coffee. Starbucks is taking a long-term view to ensure the overall sustainability of the coffee industry through our generational commitments to improve and strengthen coffee communities through sharing technical assistance, providing low interest rate loans, investing in access to water, supporting

education and health and promote sustainable agricultural practices. Coffee farmers will only continue growing coffee if they can support their families.

How does this relate to U.S. poverty-focused foreign assistance? Our answer is that such assistance, in conjunction with private partnerships, is in the U.S. interest because it helps engender goodwill toward the U.S. and it helps create global stability by empowering people with economic opportunity.

Empowerment is a key to the Starbucks mission and our partnership with USAID. Together we empower small farmers—many of whom are women— by training them to develop their coffee crop in a sustainable manner and then get it to market. For example, in the Democratic Republic of Congo (DRC), we have partnered with USAID and the Eastern Congo Initiative (ECI) to help reinvigorate the coffee market in that country. As a result of our partnership, we have helped triple the income of as many as 5,000 Congolese farmers. Likewise, we are linking farmers to the global trading system in neighboring Rwanda. In Colombia we are working with USAID to teach farmers how to conduct soil analysis, as a means of enhancing the quality of their coffee crop. In Nicaragua we partner with USAID on a farmer loan program that provides seed money to rural communities. These are just a few of numerous examples.

The world is a volatile place. However, we have witnessed firsthand how public-private partnerships, like those between Starbucks and USAID, help empower small farmers with economic opportunities they might not otherwise see. We know that an investment in rural coffee communities means strong economic opportunity for the millions of farmers who rely on coffee for their income and enables Starbucks to pursue our growth trajectory because of the availability of high quality coffee. We are proud to work directly within our supply chain and see firsthand the difference that coffee can make in the lives of so many. And if you want to see the results for yourself, then you need walk no further than the Starbucks on the House side, where you will find a multitude of coffee choices from our small farming initiatives around the globe.

Thank you for the opportunity to testify on this important topic. We look forward to continuing our partnerships with others, including this committee, to answer the question we ask ourselves each day: "What is the role and responsibility of a for-profit, public company."