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**“Capacity Building for Vietnam's Coffee Exporters to the European markets:
Market Access Aspects”**

(Final version)

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INTRODUCTION

Exporting coffee has constantly been the key engine of Viet Nam's economic and social development and the European markets account for the largest share, 43.07%, of Vietnam coffee exports. This is expected to increase in the coming years when the customers' demand of Robusta is rising. However, Europe is also known to be a tough market in terms of quality, food safety and other complicated buyers' requirements, such as sustainable coffee production. This is a challenge for Vietnam coffee exporters, many of whom are SMEs, to tap the market potential especially in light of the new free trade agreement (EVFTA). Succeeding in the European markets requires exporters not only to conduct proper market research, but also to take various actions to meet the market requirements and prepare well for their export business.

While exporters can access to various national and international market information channels, there is still the need for more digestible insights which can be easily translated into actions. In this context, the European Trade Policy and Investment Support Project (EU-MUTRAP) with the aim to enhance the EU-Vietnam trade is cooperating with Vietnam Coffee Association (VICOFA) to prepare a handy guideline on European market access requirements (Market Access Guidelines, or MAG).

Focusing on the European markets, MAG is aimed to inform Vietnam's coffee producers and exporters about the key market requirements applicable to European imported coffee and throughout the coffee export supply chain. It also suggests the necessary actions either to comply with the requirements or to be more export competitive. Accordingly, MAG consists of 3 following sections:

Part 1: European market access requirements on green coffee

Part 2: European market access requirements on roasted and instant coffee

Part 3: Practical issues concerning exporting coffee to Europe

All the inputs are compiled on basis of reviewing the European market access terms, including legal and buyers' requirements, international standards and practices, and most importantly consultation by our European expert with relevant stakeholder groups such as European importers and associations.

I. PART 1: European MA requirements on green coffee

1.1. Traceability

Due to increasing concerns about consumers' health and food safety, 'traceability' is basically a requirement for European importers and Vietnam exporters of green or processed (i.e. roasted or instant) coffee. Food products must be traceable throughout the entire supply chain to guarantee food safety, to allow appropriate action in cases of unsafe food and to limit risks of contamination.

Another reason for the traceability requirement is that many importers, roasters and consumers want to know exactly which farmers have produced the coffee they have purchased, where these farmers are located and how the coffee was produced: how are the social, environmental and economic conditions. In other words: Is the coffee production in the whole value chain sustainable? (see also section 1.6.)

Therefore when you as an exporter have a traceability system in place it would help to promote your customers' confidence and stability of your market shares.

See section 2.2 for more details.

1.2. Contamination

Also due to concerns for consumers' health and food safety, European authorities minimize the risks by setting maximum levels of contaminants to control both microbiological and chemical hazards in the supply chain and, thereby, minimize the risk to consumers' health. Coffee cannot be exported to the European markets if it contains contaminants above levels permitted.

Vietnamese coffee exporters are responsible for complying with the contamination levels as required by EU legislation. The list of maximum levels of contaminant for each product - which is available on the European Export Helpdesk - is based on scientific advice provided by the European Food Safety Authority (EFSA). At present, following categories of contaminants have been examined and taken into account (EC Regulation No. 1881/2006):

- Mycotoxins (Aflatoxins, Ochratoxin A, Fusarium toxins, Patulin) originating from mold
- Poly-aromatic hydrocarbons (PAH) (only relevant for roasted coffee)
- Extraction solvents for decaffeination

Ochratoxin A (OTA) - a peculiar mycotoxin was earlier found exceeding maximum level in Vietnamese coffee export shipments to EU. Guideline to OTA prevention is available on the FAO website.

Hydrocarbon contamination- usually caused by jute coffee bags because of the 'batching oil' used to soften the jute fibers before spinning- is another example. There have been instances of contaminated oil being used.

EU Member States customs officers will perform random sampling and analysis of foodstuffs. They regularly report findings and take actions if samples are not compliant with the legislation. Their actions can be more strictly testing on this contamination for all coffee exports from Vietnam and may prevent future shipments to Europe.

What actions are implied for Vietnam coffee exporters?

To avoid the risk of being returned or excluded from European markets, Vietnamese coffee exporters should send their export products for analysis of potential contaminants by competent agencies (for example at Vinacontrol and Cafecontrol).

The risks of contamination can be prevented by better growing, drying, processing and storage practices and effectively applying the mentioned practices with supply chain partners. They should implement management systems like GMP, GAP and Good Practices in Transport and Storage to make sure that 'contamination' issue is consistently controlled throughout all stages of their supply chain.

Coffee exporters should check the ITC Coffee guide (coffee quality), and also EU Packaging and Packaging Waste Directive for more details. Another good reference is 'Good Hygiene Practices along the coffee chain' by the ICO.

1.3. Pesticide

For the three specific reasons below, European authorities want to minimize the hazards of pesticides by setting maximum levels of residues (MLRs) of pesticides:

- concerns about the health of farmers, children and consumers
- water pollution
- loss of biodiversity

They also want to ensure that the active substances used to protect the plant are included in the EU Pesticide Database. The EU Pesticide Database gives an overview of MRLs (maximum residue levels) that are allowed in coffee beans. Coffee beans containing more pesticides than allowed will not be allowed to enter the EU market.

What actions are implied for Vietnam coffee exporters?

- As a coffee exporter, you should find out the maximum residue level (MRLs) that are relevant for your products, you can use the EU MRL database in which all harmonized MRLs can be found. You can search on your product or pesticide used. For coffee beans, search in the EU Pesticide Database (product code 0620000) gives 473 entries of pesticide residues where MRLs are set by the European authorities.
- Read more about MRLs and other legal requirements in the EU Export Helpdesk.
- Check with your buyers if they require additional requirements on MRLs and pesticide use.
- A good way to reduce the amount of pesticides, is applying integrated pest management (IPM), which is an agricultural pest control strategy that uses complementary strategies including growing practices and chemical management

1.4. Labelling

Labelling of coffee exported to Europe should contain the following guidelines in order ensure traceability of individual batches. Use the English language for labelling, unless your buyer has indicated otherwise. Labels must include the following:

- Product name
- ICO identification code¹
- Products country of origin (i.e. Vietnam)
- Grade

¹ www.thecoffeeguide.org/coffee-guide/world-coffee-trade/identification-of-exports/

- Net weight/ in kg

1.5. CSR commitments

European buyers (especially those in Western and Northern EU countries) are increasingly addressing social and environmental issues. They often have their own corporate social responsibility (CSR) policies, codes of conduct, or projects that deal with social and environmental issues. Many European supermarkets chains and industry players like Nestlé, Jacobs Douwe Egberts have developed their sourcing policies including CSR requirements and this has certain implications for coffee exporters.

Common requirements are the signing of a suppliers' code of conduct in which you declare that you do your business in a responsible way, meaning that the exporters (and their suppliers) respect local environmental and labour laws, stay away from corruption etc. Besides the individual company codes there are general codes like ISO26000 and SA8000 which can be used to guarantee and communicate social compliance.

What actions are implied for Vietnam coffee exporters?

- Many environmental and social sustainability issues take place at farm level (which may not be a part of your company). Therefore, coffee exporters should find out how they can assure that their suppliers (farmers) act in a responsible way. They can make use of the Farmer Self-Assessment by the Sustainable Agriculture Initiative.
- Coffee exporters may consider defining and implementing their own code of conduct. This may not be immediately required by European buyers, but may be a good way to show potential buyers the exporters' policy and commitment with respect to on sustainability. Applying the guidelines adopted elsewhere by the local (coffee) industry can be a good starting point.
- They can check out the ICO's farmer support programmes for sustainable practices.

1.6. Sustainable certification (UTZ, RFA, 4C, Organic, Fairtrade)

Certification is the most common way to show compliance with CSR criteria. Traditionally, certification focuses on either environmental or social issues but these issues are increasingly integrated. The demand for certified coffee in Europe is driven by ambitious goals of industry players.

The Global Coffee Platform aims to increase the amount of sustainable (in many cases certified) coffee on the European markets and supports medium and large roasters with implementation of sustainability programmes.

For coffee, UTZ² and Rain Forest Alliance³ are most commonly used by mainstream large and smaller roasters and retailers. They have tools and other assistance to help exporters understand the criteria and educate on how to become certified. For example, UTZ has tools for steps to establish an internal control system, implementation guide code of conduct for coffee, good coffee practice guide and an e-learning guide. Rainforest Alliance provides (online) training.

² www.utzcertified.org

³ www.rainforestalliance.org

4C is an important B2B-scheme used in the coffee sector. Business-to-business (B2B) schemes (no logo on the final product) are also a good way to address sustainability issues.

Apart from these commonly used certification schemes, there are also other options for a few niche markets (often for specialty coffee and most popular in Northern and Western Europe):

- **Organic:** Organic coffee are produced and processed by natural techniques (e.g. crop rotation, biological crop protection, green manure, compost). You are allowed to put the EU organic logo on your products, as well as the logo of the standard holder (e.g. in the UK Soil Association and Organic Farmers and Growers and Germany BCS Öko-Garantie) when you grow your coffee using organic production methods. These are laid down in this EU legislation and an accredited certifier must audit growing and processing facilities.

- **Fair trade:** Having your coffee products being Fairtrade certified⁴ is the proven way to show your business performance for social conditions in your supply chain. After certification by FLO-Cert⁵, an independent third party, you are allowed to put the Fairtrade logo on your product. In general, prices for fair trade products consist of a minimum price plus a premium. Although large industry players like Nestlé have fair trade product lines, it is still considered a niche market.

Implementing organic production and becoming certified can be expensive, especially for small holders. In the current market the return on investment may not be high. On the other hand it can guarantee some niche markets for exporters, increasing their yields and quality.

What actions are implied for Vietnam coffee exporters?

- Consult the Standards Map⁶ database for the different organic labels and standards.

- Check the Soil Association⁷ standard for Food and drink to get an idea of the requirements of organic production.

- There are a lot of different organic labels. The labels that fall under umbrella organisation International Federation of Organic Agriculture Movements (IFOAM)⁸ are more or less harmonised.

- Companies trading fair trade products have to follow the Trade Standard, be aware of certain exceptions for specific commodities. View information for smallholders. Check the Fairtrade Standards for small producer and the standard for hired labour of CTC.

- Next to certification, transparency of the supply chain is an asset in the specialty segment. Communicate a traceable and clear, direct link between producer and consumer.

⁴ www.fairtrade.net

⁵ www.flocert.net/

⁶ www.standardsmap.org/

⁷ www.soilassociation.org/

⁸ www.ifoam.org

II. PART 2: European MA requirements on roasted and instant coffee

2.1. General food safety and health control

All roasted and instant coffee must comply with the EU health and safety requirements before entering the EU market. As a result, coffee can only be exported to the EU if it complies with EU food law or equivalent conditions. For instance, 'traceability' is an important element. European authorities adopted more general provisions on food safety and health control due to increasing public concerns on these topics (Regulation EC 178/2002). This 'General Food Law' applies to all stages of the food supply chain, from production, processing, transport and distribution. An important element is 'Contaminants', of which OTA and MRLs are the most relevant for green coffee exports to the EU.

- Check the RASFF database to see examples of withdrawals of coffee from the market and the reasons behind these.
- Read more about health control regulations at the EU Export Helpdesk. Here you can select your specific product codes under chapter 09 (coffee)
- Read more on the different Food Safety Management Systems at the (ITC) Standards Map.

2.2. Traceability

'Traceability' is required for exporters of roasted and instant coffee to be able to withdraw or recall food products from the markets when necessary. 'Traceability' is also expected to promote fair trade, consumers' confidence and market stability (see section 1.1).

According to Article 18 of the EU's General Food Law, all European food operators including importers of roasted and instant coffee must be able to identify from whom the products have been imported and to whom they have been sold. They are also required to have systems and procedures in place so that relevant information and documents can be submitted to Competent Authority upon request. In general traceability involves labelling of the packages and can be stored in computers with help of specific software (e.g. IBM, SAP or ERP).

What actions are implied for Vietnam coffee exporters?

Although traceability is not directly required by E.U. legislation for coffee exporters from countries outside the E.U., it is a common practice that this requirement is reflected in their contractual agreements with the European importers. There are some actions to be considered:

- For a coffee exporter who seeks to develop a sustainable export business, a 'traceability' system should be in place to meet requirements from various potential buyers around the world. 'Traceability' is also an applicable tool in GAP, GMP and HACCP.
- When in transaction with potential customers, check with them whether 'traceability' is required by them. If yes, check which specific information do they require, or if any additional information should be added to your existing 'traceability' system.

Table 1: Example of traceability data

Data collected	What should be recorded
Input lot number	Packaging identification
Product description	Product description
Shipping date	Order preparation and ship date
Identification of origin	Company name and address
Shipment identification	Customer order number
Shipper identification	Company name and address
Identification of destination	Customer name and address (destination)
Receiver identification	Customer number
Quantity	Number of pallets shipped
Units (bags)	Number

Source: Establishment of a traceability system, Handbook, COLEACP

2.3. Contamination

What is applied for coffee beans is also applicable for roasted and instant coffee, especially PAH and extraction solvents for decaffeination. Solvents can be used for decaffeination of coffee. There are maximum residue limits restrictions for the extraction solvents such as methyl acetate (20 mg/kg in the coffee), dichloromethane (2 mg/kg in the roasted coffee) and ethylmethylketone (20 mg/kg in the coffee). Refer to EU Directive 2009/32/EC for more information about the restriction of extraction solvents.

2.4. Pesticide

See details in section 1.3.

2.5. Labelling

EU food labelling rules (Regulation (EU) No 1169/2011) ensure that consumers receive essential information to make an informed choice when purchasing their food. Similar labels make it easier for the customer to choose. Therefore, all food labels must display certain information, such as:

- The name of the product. In the absence of EU and national provisions applicable to it, the name should be a customary name or a description of the food. No trademark, brand name or fancy name may substitute the generic name, but it may be used in addition to the generic name. The food's physical condition or the specific treatment undergone (roasted, whole beans or ground, soluble, etc.) must also be included if its omission could be misleading for consumers.

- The list of ingredients, including additives. However, foods consisting of a single ingredient, where the name of the food is identical to the name of the ingredient or enables the nature of the ingredient to be clearly identified do not need to include a list of ingredients. Presence of substances known for their ability to spark allergic reactions and intolerances should be always indicated.
- The net quantity of pre-packaged foodstuffs.
- The minimum durability date consisting of day, month and year in that order and preceded by the words "best before"
- Conditions for storage and use The name or business name and address of the manufacturer or packager, or of a seller established in the EU.
- Place of origin or provenance, where failure to give such particulars might mislead the consumer.
- Lot marking on pre-packaged foodstuffs with the marking preceded by the letter "L". These indications must appear on the package or on a label attached to pre-packaged coffee.

The label must be visible, legible, indelible and easy to understand, and must appear in a language that is easily understood by consumers. Usually this means in the official language(s) of the European country where the product is marketed. However, the use of foreign terms or expressions that are easily understood by the purchaser may be allowed.

Further, for coffee extract, soluble or instant coffee (except for café torrefacto soluble), specific label requirements apply: Markings such as 'Coffee extract', 'soluble coffee extract', 'soluble coffee' or 'instant coffee' mean that the package contains concentrated product obtained by extraction from roasted coffee beans using only water as medium of extraction and excluding any process of hydrolysis involving the addition of an acid or a base. Apart from those insoluble substances which are technically impossible to remove, and insoluble oils derived from coffee, coffee extract must contain only the soluble and aromatic constituents of coffee.

The term "concentrated" may only appear on the label if the coffee-based dry matter content is more than 25% by weight, while the term "decaffeinated" must appear if the anhydrous caffeine content does not exceed 0,3% by weight of the coffee-based dry matter. This information must be within the same field of vision as the sales description.

Coffee extract in solid or paste: To be considered as "coffee", the dry matter content must not be less than 95% by weight if dried coffee extract, and between 70% and 85 % by weight if coffee extract paste. It must not contain substances other than those derived from the extraction of coffee and the label must indicate the minimum coffee-based dry matter content, expressed as a percentage by weight of the finished product.

Liquid coffee extract: The dry matter content must be between 15% to 55 % by weight in the liquid coffee extract. If containing sugars, whether or not roasted, the proportion should not exceed 12% by weight and the label must include the terms 'with', 'preserved with', 'with added' or 'roasted with' followed by the name(s) of the types of sugar(s) used.

2.6. Food safety certification

According to EU regulations, a food safety management system is only required for food operators within the E.U. and is therefore not strictly necessary for Vietnamese coffee exporters. However, as food safety is a top priority in all EU food sectors, many EU importers require coffee exporters to implement a food safety management system based on HACCP principles. With HACCP a coffee producer can control the biological, chemical or physical food hazards that might occur during his processing of coffee. With a documented system, he can demonstrate how he controls those hazards. Having such a system improves the competitive position of a coffee exporter, and even more when it is a certified system (e.g. ISO22000).

European larger retailers often demand BRC⁹ or IFS¹⁰ food safety and quality certification

What actions are implied for Vietnam coffee exporters?

- Adopt the HACCP principles for your food safety management and stand out from the competition.

2.7. CSR commitments

CSR requirements are the same as for coffee beans. See 1.5.

2.8. Sustainable certification (UTZ, RFA, 4C, Organic, Fairtrade)

Sustainable certification requirement is the same as for coffee beans. See 1.6.

III. PART 3: Practical questions concerning exporting coffee to Europe

Question 1: How to make a Coffee Contract?

A coffee contract should specify the quantity, quality, price, shipping term (e.g. FOB, or C&F or CIF) and payment conditions. In most cases, a contract is made up by the European buyer in 'short form'. Usually, reference is made to the European Contract for Coffee (ECC) to make clear that the complete set of conditions, given in the ECC contract, is followed. If there is doubt about any detail in the contract, it should be made clear between buyer and seller, before it is signed.

It is recommended to study the European Contract for Coffee to get acquainted with the several important elements that make up a coffee contract.

A good and relevant source of information are also the Coffee sourcing terms for green coffee of Jacobs Douwe Egberts.

Question 2: What are the required Export Documents?

At least, following documents are required:

-Invoice

⁹ www.brcglobalstandards.com

¹⁰ www.ifs-certification.com/index.php/en/

- Set of complete 'on board' Bills of Lading
- Weight certificate
- Certificate of Origin (e.g. ICO certificate)
- Sometimes, a Fumigation certificate or Phytosanitary certificate is required by the buyer)

See art. 18 of the ECC¹¹ for more details on the shipping documents.

Question 3: How is the Weight specified?

See art. 3 and 4 of the ECC for the difference between 'landed weight' and 'shipped weight'.

In the case of 'shipped weight': Any loss in weight in excess of 0.5% of the shipped weight shall be refunded by the sellers.

Question 4: What are the Payment conditions?

The most common payment term in trade with the European Union is 'Cash against documents'. In this case, the set of shipping documents is sent through the bank of the seller to the bank of the buyer.

Also the shipping documents are sometimes sent directly to the buyer. This assumes there is a trust basis between seller and buyer. See art. 19 of the ECC for more details.

In theory, payment by letter of credit (L/C) is an option, but this method is not common and not very acceptable.

Question 5: How is Insurance arranged?

It has to be stated in the contract who will arrange and pay for the insurance of the shipped coffee. Insurance is usually arranged and paid by the European buyer.

See art. 15 of the ECC for more details.

Question 6: What are the Shipment terms?

Most common term is 'Free on Board'(FOB). Also Cost and Freight' (C&F) is used.

'Prompt shipment' means within 30 days and 'immediate shipment' means within 15 days.

See art. 11 of the ECC for or details.

Question 7: Is Fumigation required?

Usually, the buyer requires fumigation. The costs are to be paid by the seller.

Although fumigation with methyl-bromide is not allowed within the European Union, the method is still used in many coffee exporting countries.

¹¹ www.ecf-coffee.org/index.php?option=com_content&view=article&id=35&Itemid=94

Question 8: What about Quality and Grading?

Make sure to comply with the quality as defined in the contract.

The common grading in Vietnam (Grade 1, 2 and 3) is usually adequate and is well acceptable and recognised by the European importers.

Moisture content is an important parameter and should be max. 12.5% for Grade 1 and 13% for Grade 2.

In general, pre-shipment samples are required for approval. This is sometimes stated as: ‘No approval-no sale’.

Question 9: Hedging / Price to be fixed

In many cases, the coffee price in a contract is defined on the basis of a differential against the London Futures Market¹² : The final sales price has to be fixed at a later moment. Usually, the seller may fix the price before the actual shipment takes place.

In order to manage the price risk, originating from fluctuations of the coffee price at the world market, the coffee exporter can choose to use ‘hedging’. It is recommended to use hedging only when this tool is well understood and with assistance of professionals, like local banks (e.g. Techcombank). In practice, smaller exporters need to achieve a critical mass in quantities of coffee they handle, before this option is financially viable.

Question 10: What Vietnam coffee exporters should do to develop their exports further?

More detailed information about European market access requirements can be checked on the

- Export Helpdesk, Europa website,
- ITC Coffee Guide
- CBI Market Information

For more complete insights about exporting coffee to Europe, exporters should conduct market research by themselves, with external support by the Vicofa technical team.

Market research reports are published on the website of the CBI Netherlands (www.cbi.eu).

They should also verify market information via European coffee trade fairs, such as

- COTECA
- SCAE (specialty coffee)
- Tea and Coffee World Cup
- BioFach (organic coffee)

¹² www.theice.com/products/37089079/Robusta-Coffee-Futures

Question 11: What are the implications of the (EU-VN FTA) for coffee exporters?

Although the free trade agreement contains a separate chapter on SPS measures, all requirements are already covered in chapter 1. and 2. For coffee exports from Vietnam this agreement doesn't have implications. There is a specific paragraph on trade in ethically produced products in the Agreement. Ethics and sustainability (water, climate change) are important issues in Europe.

Question 12: HACCP and GAP/GMP: which should be applicable?

Both HACCP and GAP (or Good Agricultural Practice - there is also GMP or Good Manufacturing Practice) are quality assurance systems but they have different approaches. HACCP concentrates on a few critical points whereas GAP tries to make all-round improvements. GAP is easier to set up but does not necessarily zero in on the most important steps that influence the occurrence or avoidance of toxins in coffee.

The two processes are complimentary in that GAP will improve coffee quality, whereas HACCP will provide the type of disciplined monitoring and control that supermarket chains and food manufacturers increasingly demand. More importantly, it is only through the HACCP process that one can establish where OTA enters the system and where the fungi causing OTA first appear. This is essential if one is to meet European Union and presumably in due course also United States requirements for the reduction and prevention of OTA contamination.

Please refer to the ITC Coffee Guide for more information.