



Cologne, December 11, 2024

4C Statement on “Ghost Farms and Coffee Laundering: how labour violations enter Starbucks’ and Nestlé’s Chinese coffee supply chain” published by China Labor Watch (with the support of Coffee Watch)

U.S.-based China Labor Watch, supported by Coffee Watch, published a report about “ghost farms,” “coffee laundering,” and labour issues in coffee supply chains in China; these coffee supply chains are either certified under C.A.F.E. Practices or 4C.

4C is an independent stakeholder-driven organization, which values external findings and constructive feedback, as provided in the report. 4C views these findings as an opportunity for reflection and will consider this valuable input to improve the operations, monitoring, and system. 4C certifies 1.8 million tons of green coffee annually in 20 countries. More than 90% of the 4C farmers are smallholders. The average size of the more than 300,000 farms is 2.5 ha. Nestlé is a system user of 4C, as are several other major brand owners.

4C takes the report seriously, and would like to clarify and comment on the key findings as follows:

(1) Informal employment relationships and piece-rate pay systems incentivise labour rights violations

4C is aware that informal employment relationships and piece-rate payment systems pose a risk to the protection of labour rights. Therefore, the 4C Code of Conduct explicitly requires fair labour contracts for all workers, with written agreements mandated, unless verbal agreements are permitted for temporary workers complying with national laws and regulations. 4C does not accept informal employment relationships and requires authorized worker representation.

A piece-rate payment system may cause labour rights violations if the equivalent total remuneration (e.g. for an 8-hour workday) is lower than the minimum wage. Piece-rate payment systems are common in the agricultural sector; the coffee sector is not an exception and is often a necessity for seasonal harvesting work. According to 4C criteria, all workers must be paid at least the minimum wage, therefore requiring that piece-rate payment systems are fair and implemented effectively. Piece-rate systems applied accordingly enable workers to earn higher wages than the minimum wage.

(2) Lack of direct contractual relationships between coffee firms, certified estates, and smallholder farms

In the 4C system, the sourcing from unregulated “ghost farms,” allowing coffee to be laundered into the global market, is explicitly not allowed and classified as a critical non-compliance, which will result in the withdrawal of the certificate.

The 4C system includes robust traceability requirements to ensure transparency and accountability across the coffee supply chain. Coffee must originate from farms and supply chain entities that are part of the 4C Unit. 4C requires that all farms supplying coffee within a 4C unit must be registered and accounted for. These requirements enable buyers to verify that



coffee labelled as 4C-compliant meets the sustainability criteria and originates from certified sources. Certified entities must maintain detailed records to track the flow of 4C-compliant coffee through the supply chain.

The report implies that smallholders cannot be certified under the 4C framework and are therefore obliged to sell to large estates in an informal manner. This is not correct, as 4C pursues an inclusive approach to enable smallholder coffee producers to enter certification and not to be marginalized in global markets. The 4C system offers tailored support and certification pathways to ensure smallholders can participate. This includes group certification options, capacity-building programs of the 4C Managing Entities, and simplified documentation requirements to accommodate their limited resources. In the 4C system, smallholders are producers whose workforce consists primarily of family or household labour or workforce exchange with other members of the community, and whose coffee farm size is context-dependent but usually ranges from less than 1 hectare to 5 hectares of coffee-growing land. Based on this definition, most of the farmers certified under 4C in China are smallholders.

In addition, the 4C Code of Conduct requires the establishment of traceability systems to verify that the volume of 4C certified coffee is traded only between registered farmers (regardless of their size), service providers and the Managing Entity. Coffee trade has to be reported, and physically segregated from non-4C certified coffee. The traceability system is audited on-site to verify that the amount of 4C certified coffee sold aligns with the size and capacity of the registered fields within a 4C unit, which must be supported by documentation such as contracts, invoices, and delivery notes. This should avoid a situation in which “ghost farms” laundering non-certified coffee into global markets.

(3) Child Labour

The report describes a case of child labour in which a child was sorting defective beans in a workshop. The report also mentions young family members helping out during summer breaks by picking and sorting coffee beans. These tasks are not considered hazardous work and are in principle in line with international conventions.

4C does not allow the employment of children below the legal minimum age as per the laws of the country where the coffee is produced or in alignment with international standards. In case of discrepancies, the stricter rule shall always be followed. The 4C system strictly prohibits any type of child labour as defined by international conventions, such as ILO C182.

Children carrying heavy loads and being exposed to chemicals are issues not in compliance with 4C. 4C includes specific requirements to ensure that children are not exposed to agrochemicals, in alignment with its sustainability standards and the prohibition of child labour in hazardous environments. E.g., children are strictly prohibited from handling, applying, or being involved in the preparation of agrochemicals (e.g., pesticides, herbicides, or fertilizers) or entering fields or areas recently treated with agrochemicals. The 4C system includes several requirements regarding appropriate handling and storage of chemicals, in line with ILO, Stockholm Rotterdam, and Montreal Conventions, e.g. prohibition of hazardous chemicals, minimization of chemical uses, safe storage and application practices, disposal and waste management.



4C is committed to further strengthening the external verification of any form of child labour within 4C certified units. The report refers correctly to the 4C Guidance on the Protection of Children's Rights, which already includes clear definitions and examples of child labour, as recommended in the China Labor Watch report. In addition, the new 4C Code of Conduct will require certificate holders to perform a holistic Child Labour Risk Assessment (CLRA). This process will evaluate the likelihood and underlying drivers of child labour in the regions of operation, enabling 4C certificate holders to identify risk factors and implement targeted measures to address them effectively. This will take effect with the 4C System Revision of the Code of Conduct v.5.0 aimed for 2025.

(4) Contractual conditions (wages, working hours, paid leave, insurance)

4C requires certified units to be compliant with at least legal regulations and fair employment conditions, including working hours, breaks, and holiday entitlements. These regulations and the 4C audit checklist are regularly reviewed and benchmarked against SAI Platform's Farm Sustainability Assessment 3.0 (FSA) Silver and Gold requirements to ensure compliance with internationally recognized standards. The report states that coffee pickers are being paid RMB 80 – 200/day, barely meeting minimum wage. The minimum wage for piece-rate workers in Yunnan province is RMB 1,990 per month. If the median of the wide range mentioned in the China Labor Report is taken, a piece-rate worker working 5 days a week would earn RMB 2,800, 40% above minimum wages.

According to the Labour Law of the People's Republic of China, employees who have worked continuously for more than one year are entitled to paid annual leave. Therefore, by law, temporary workers are not entitled for paid annual leave if they have not worked continuously for more than one year. Another issue reported is a 7-day workweek schedule for three consecutive months – this is not allowed in the 4C system. Regarding insurance, which is clearly an institutional issue, the report states that farmers have signed in to the new Rural Medical Insurance scheme.

(5) No protective gear

The report indicated that workers were not provided with protective equipment, thereby increasing the risk of injuries. 4C requires its farmers, service providers and Managing Entities to establish a health and safety program to identify major risks at the workplace and train workers accordingly. In addition, workers must be provided suitable protective clothing and equipment for free. This is a major requirement in the 4C system; non-compliance requires immediate corrective measures to rectify the bad practices, otherwise, the certificate will be withdrawn.

(6) Discrimination against indigenous communities

The report also highlights systemic discrimination against indigenous communities, including cultural and linguistic marginalization, and exclusion from key processes. 4C emphasizes the importance of equal rights and non-discrimination, requiring certified entities to identify and support groups potentially vulnerable to exploitation or marginalization. 4C certification includes robust requirements on non-discrimination and gender equality with regards to access to rights, resources, education, and representation.



The report entails an accurate description of 4Cs criteria and refers to the main due diligence requirements. Verification of compliance with the 4C requirements are conducted by independent external certification bodies. Only if units are compliant with 4C requirements, can a certificate be issued. It is a core focus of 4C to make sure that non-compliances are detected by auditors. Furthermore, 4C requires certification bodies to conduct risk assessments prior to conducting audits. Risk assessments allow for audit planning based on specific ecological and social challenges present in the respective area. Auditors therefore need to fulfil a high level of qualifications and are trained by 4C.

4C operates its own integrity program, which double-checks the work of the auditors (“watch the watchman”) and also manages a grievance and complaint channel, open to all stakeholders. Findings from the integrity program and our grievance and complaint channels contribute to the continuous improvement of the 4C system. Integrity audits of Nestlé units carried out so far have not shown major non-compliances as described in the China Labor Watch report.

Social auditing remains challenging due to the complexity of the topics. 4C has recently been granted the ISEAL Innovations Fund for a project aimed at enhancing social auditing and the identification of human rights violations for both external third-party certification bodies and internal monitoring by the certificate holders. Learnings from the project will be integrated into the revision of the 4C system.

4C is fully committed to analyse the risks of relevant issues reported and address them with tailored interventions. 4C will evaluate the actual situation and compliance with 4C requirements through its integrity program. 4C invites China Labor Watch to share details of the assessment and is open to discuss recommendations arising from this.