Coffee Development Report 2019

Growing for Prosperity
Economic viability as a catalyst for a sustainable coffee sector

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Executive Director
125th Session - International Coffee Council
COFFEE DEVELOPMENT REPORT 2019

• ICO’s new economic flagship publication
• Reflects annual theme of the ICO
• Analysis to support Resolution 465
  – Root causes of the coffee price crisis
  – Solutions
• Integrated in the Sector-wide Dialogue
COFFEE AND ECONOMIC DEVELOPMENT
ICO COMPOSITE INDICATOR DROPPED BY 30%
COFFEE IS PRODUCED IN COUNTRIES WITH RELATIVELY LOW INCOME

![Graph showing the relationship between GDP per capita PPP and Human Development Index (HDI) for coffee-producing and non-coffee-producing countries. The graph indicates a positive correlation between GDP per capita PPP and HDI for non-coffee-producing countries, while coffee-producing countries tend to have lower HDI values at lower GDP per capita PPP.](image-url)
TWO CONSECUTIVE YEARS OF SURPLUS IN THE MARKET

ICO Composite Indicator (Season average)
REAL COFFEE PRICES SHOW NO SIGNIFICANT TIME TREND

Real ICO Composite indicator (USD/lb), US CPI base 1982=100

Frost/Drought in Brazil
### Volatility of Coffee and Other Agricultural Commodities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>15.9</td>
<td>18.8</td>
<td>20.3</td>
</tr>
<tr>
<td>Sugar</td>
<td>18.1</td>
<td>18.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Cocoa</td>
<td>15.9</td>
<td>18.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Tea</td>
<td>18.8</td>
<td>21.7</td>
<td>22.8</td>
</tr>
<tr>
<td>Rice</td>
<td>18.6</td>
<td>21.7</td>
<td>22.8</td>
</tr>
<tr>
<td>Wheat</td>
<td>20.3</td>
<td>19.1</td>
<td>22.8</td>
</tr>
</tbody>
</table>

**Source:** Volatility Data

**Graph:**
- **X-axis:** Volatility (%)
- **Y-axis:** Year Range
- **Legend:** Agricultural Commodities

**Legend:**
- **Color:** Different shades of blue and orange represent different commodities and years.
MOVEMENTS IN EXCHANGE RATES AGAINST THE US$
COFFEE MARKET IS SUBJECT TO FINANCIALIZATION

Index
(1994/95 = 100)

Production
Volume of contracts traded

<table>
<thead>
<tr>
<th>Year</th>
<th>Index (1994/95 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994/95</td>
<td>533</td>
</tr>
<tr>
<td>2005/06</td>
<td>170</td>
</tr>
</tbody>
</table>
PRODUCTION COSTS ARE ON THE RISE

Index of per-hectare cost in local currency, 2006=100

- Brazil
- Costa Rica
- Colombia
- El Salvador
SOCIOECONOMIC RELATIONSHIP
1% INCREASE IN COFFEE PRICE

(a) ECONOMIC AND SOCIAL IMPACT
- Rural employment rate: 3%
- Agriculture value added % of GDP: 1%
- Poverty headcount ratio at $1.90 a day: -4%

(b) FOOD SECURITY
- Supply of protein of animal origin*: 10%
- Undernourishment*: -9%

(c) POLITICAL STABILITY AND SOCIAL COHERENCE
- Political stability index: 0.08
- GINI index: -0.02

* Results are significant for countries which are highly dependent on coffee (share of coffee in total export value)
Results are statistically significant at least at the 10% level.
SHARE OF TOP-5 PRODUCERS IN GLOBAL COFFEE PRODUCTION INCREASES

61% to 72% increase in share of top 5 producers in global coffee production from 1990/91 to 2017/18.
COMPARISON OF COFFEE CONSUMPTION BY REGION (INDEX OF VOLUME)

Index of coffee consumption
1990/91=100

- Asia*
- Central America & Mexico
- South America
- Africa
- Traditional markets

Year:
- 1990/91
- 1999/00
- 2008/09
- 2017/18

Growth rates:
- Asia*: 5.5%
- South America: 3.1%
- Central America & Mexico: 3.2%
- Africa: 1.7%
- Traditional markets: 1.1%
EVOLUTION OF GLOBAL MARKET SHARES IN CONSUMPTION

<table>
<thead>
<tr>
<th>Year</th>
<th>Traditional markets</th>
<th>Exporting countries</th>
<th>Emerging markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990/91</td>
<td>71%</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>1993/94</td>
<td>71%</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>1996/97</td>
<td>63%</td>
<td>31%</td>
<td>15%</td>
</tr>
<tr>
<td>1999/00</td>
<td>54%</td>
<td>44%</td>
<td>12%</td>
</tr>
<tr>
<td>2002/03</td>
<td>44%</td>
<td>44%</td>
<td>12%</td>
</tr>
<tr>
<td>2005/06</td>
<td>31%</td>
<td>54%</td>
<td>15%</td>
</tr>
<tr>
<td>2008/09</td>
<td>31%</td>
<td>54%</td>
<td>15%</td>
</tr>
<tr>
<td>2011/12</td>
<td>15%</td>
<td>54%</td>
<td>31%</td>
</tr>
<tr>
<td>2014/15</td>
<td>15%</td>
<td>54%</td>
<td>31%</td>
</tr>
<tr>
<td>2017/18</td>
<td>7%</td>
<td>22%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Share in global coffee consumption
PER CAPITA CONSUMPTION ACROSS MARKETS (2018)

GDP per capita PPP

Annual per capita consumption (in kg)
OVER 90% OF COFFEE EXPORTED IN GREEN FORM

- 94% Green
- 0.1% Roasted
- 5.9% Soluble

- 91% Green
- 0.3% Roasted
- 8.2% Soluble

- 1994-1998: 94%
- 2014-2018: 91%
AREAS FOR ACTION

• 50 potential solutions
• Considered:
  • Barriers to implementation
  • Potential impact
• Leading actors:
  • Producers
  • Industry
  • Governments and international organizations
PRIORITY SOLUTIONS AND ENABLING FACTORS

FOCUS OF PRIORITY SOLUTIONS

1. Market transparency
2. Responsible sourcing
3. Level playing field
4. Balanced market

ENABLING FACTORS

5. Service delivery
6. Funding mechanisms
7. Multi-stakeholder coordination
ROLE OF PRIVATE SECTOR

• Develop direct, transparent, stable commercial relationship with suppliers
  ➢ Contract and payment terms
  ➢ Price incentives: reward quality, consistency and sustainable practices

• Premiums paid: informed by production costs and living income benchmarks

• Prices paid: match objective of profitability and sustainability
ROLE OF PRIVATE SECTOR

• Private sector-led initiatives
  ➢ Partnerships to make them scalable
  ➢ Multi-stakeholder dialogue for better integration and harmonization

• Financial sector
  ➢ Tailored products
  ➢ Ease barriers to access

• Blended finance mechanisms for strategic investments
ROLE OF GOVERNMENTS

Exporting countries

• Transition to more profitable and sustainable production:
  ➢ Cost-efficiency: access to inputs, finance, extension services, digital technology
  ➢ Increase value added
  ➢ Investments in research, infrastructure, on-farm diversification
  ➢ Social and environmental regulation
  ➢ Holistic approach / enabling environment

• Promote domestic demand – pre-competitive

• Remove trade barriers
ROLE OF GOVERNMENTS

Importing countries
• Ensure efficient functioning of futures markets
  ➢ Regulation
  ➢ Measures to mitigate volatility
• Promote responsible sourcing practices and responsible trade
• Further research in areas of concentration/competition
• Promote demand – pre-competitive
• Remove trade barriers
ROLE OF ICO

• Market transparency
  - Costs of sustainable production: economic, social and environmental
  - Widely-accepted methodologies
  - Price level that enable a living income

• Upgrading market information systems
  - Inform sourcing practices of industry
  - Inform production practices
ROLE OF ICO

• Multi-stakeholder dialogue
  ➢ Integration and harmonization of initiatives
  ➢ Sharing of best practices
  ➢ Lessons learned
  ➢ Definition of a shared vision, long-term strategy and common targets
NEXT STEPS

- Launch of CDR on International Coffee Day (1 October) at Embassy of Switzerland

- Roadshow to disseminate results, advocate for the coffee sector
  - ICO Member countries
  - International organizations
  - Donors
  - Industry events
COFFEE DEVELOPMENT REPORT 2019

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Thank you