



Organización Internacional del Café
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Coffee crisis

International Coffee Council
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**Ideas and initiatives raised at the
ICO/World Bank high-level Round-Table
on 19 May 2003, in search of solutions to the
coffee crisis**

Background

1. The ICO/World Bank high-level Round-Table “International Coffee Crisis – Looking for long-term solutions” took place at the ICO headquarters on Monday 19 May 2003. The Round-Table was attended by around 250 delegates from producing and consuming Governments, the private sector, NGOs, multilateral institutions and the press.
2. The concept behind the Round-Table was to bring together high-level decision-makers from all sectors of society relevant to this issue to seek concrete solutions to address the crisis and the threat to sustainable development. The event comprised two panels entitled “Coffee and commodities in international trade: A problem area” and “Finding solutions – Diversification, quality, added value and market development” and background papers were prepared by the ICO and World Bank to assist participants.
3. Participants noted that there was no one single answer or quick fix to the current crisis, and short-term as well as long-term solutions were needed to resolve it. Political will to address the crisis was also crucial. The focus should be on helping those who were in most need of assistance, vulnerable coffee farmers.
4. This document contains a summary of ideas and initiatives proposed by panellists and participants during the meeting. Copies of the presentations made by panellists will be made available on the ICO website www.ico.org.

Action

The Council is requested to consider the proposal made at the Round-Table and to decide on appropriate action to be taken in the light of discussions on this item.

OVERVIEW OF DISCUSSIONS

In their joint concluding remarks the Executive Director of the ICO and the Director of the Agriculture and Rural Development, World Bank identified the following main topics covered by the Round-Table:

- The recognition of the coffee crisis characterised by a lack of balance between supply and demand, a skewed distribution of value in the supply chain, and unacceptable levels of poverty among coffee farmers.
- A recognition that a totally free market entailed excessive social costs and that some forms of action with an impact on the market might be considered, notwithstanding the fact that finding such a form of action with an agreement between the various parties may be difficult.
- The acknowledgement that there is an imbalance between demand and supply and a need to address this through measures to increase consumption by promotion and improvement of quality.
- Excessive dependence could be addressed through diversification although this required reform of present patterns of protection by the elimination or substantial reduction of tariffs and subsidies.
- Broader based rural development would also be helpful with support for local processing industry and producer associations, introduction of better credit and risk management services, and provide alternative activities.
- There was a need to work towards returning coffee producers to a sustainable economic situation with the promotion wherever possible of added value.
- An important element was the coordination of approaches with the ICO acting in a lead role as the focal point for information, action, and international cooperation.

SUMMARY OF POINTS RAISED DURING THE ROUND-TABLE

The following points made by participants in the Round-Table are listed in summary form in broad categories. Initials in brackets are those of presenters (see attached programme for details). Copies of presentations made by panellists are available on the ICO website.

I. QUALITY

- Governments and the coffee industry should support the ICO quality programme. Consider legislation outlining quality standards in consuming countries (SCD)
- Quality needs to increase (KC)
- Quality should be maintained as an imperative – supermarket chains want their own brand lines to equate organoleptically with the best products of the leading brands (SK)
- Resolution number 407 a signal that quality of green coffee can contribute to improving the coffee supply chain. Nestle is heavily supporting quality improvement programmes in several producing countries (OT)
- ICO quality scheme is good but cost falls on producing countries. Have asked E.U. to monitor independently quality in European market and publish quickly list of contravening companies/ countries – response was that this is too expensive, but Global Alliance will continue to push for this (PB)
- Many countries currently introduce regulations re substandard material coming into the coffee chain – an effect of the important ICO quality Resolution that we have strongly supported from its initiation to implementation, including the need for monitoring of compliance in both producing and consuming countries (BP)
- Comprehensive monitoring of coffee quality could be a Commission commitment (GK)
- The E.U. can help to take low-grade coffee out of the market (GK)

II. CONSUMPTION/MARKET DEVELOPMENT

- Consumption needs to be increased but it is difficult for donors to finance these initiatives. However, in the light of discussions the World Bank could reconsider this issue (KC)
- Encouragement by way of global advertising – ICO support for generic advertising must be welcomed (SK)
- Bringing new consumers to coffee and increasing existing consumption are ways to increase consumption – but can increase consumption quicker by bringing new consumers to coffee (OT)
- Expanding markets – increase domestic consumption, new consumers in existing markets, new products, new markets (KC)
- Nestle involved in initiatives to increase consumption. Has stated support for ICO initiative at communicating positive message on health, participates actively in Positively Coffee Group, supporting research made to identify health benefits of coffee drinking (OT)

- A healthy, vibrant consumer market is best assurance for the long-term success and prosperity of producers. Some of this market building may be better done in pre-competitive efforts by the industry as a whole. That is why we have also joined with other major roasters in shaping the positively coffee market development programme (AW)

III. PRODUCT DIVERSIFICATION

- Trendsetting action of specialty and gourmet coffees in post ICO quota period is bringing back the young consumer (MN)
- Do more of what we are doing to increase consumption by product development initiatives – by innovation, mixtures in soluble form, better cappuccinos, good flavoured coffees, offered in attractive packaging (SK)
- Call on product diversification to offer greater choice (SK)
- Coffee farmers/organizations could upgrade quality and develop marketing potential by product differentiation: think of organic, fair trade, origin and gourmet coffees etc. This requires professional business-like farmer organizations (BP)
- Respond to fast-changing market and competitive environment. As brands develop new coffees/speciality drinks, private sector label needs to respond. Challenge is to compete with the major brands in product development and above all innovate (SK)
- Explore fair-trade route more actively – growing interest in the UK in coffees of this category – a segment of market which is bound to grow. Other supermarket chains are actively involved in approaches with emphasis on provenance – signs of responsible reaction to crisis by the distribution chain (SK)
- Global alliance has called on giant roasters to start paying a decent price allowing subsistence – has called on them to support ICO quality scheme, use their resources to push for solutions and start purchasing some fair trade coffee – 2% of blends – little done to date (PB)
- Diversification of markets e.g. specialty coffee, shade coffee, fair trade coffee, organic coffee (KC)

IV. SUSTAINABILITY

- Worldwide stake-holder initiative for sustainability – Common codes for the coffee community – a worldwide multi-stakeholder initiative attempting to set an ecological, economic and environmental framework for mainstream coffee growing and processing. Need for a standard which is specific enough to work in different growing settings but has a commonality which makes it tradable. When implemented will bring about improvements in the living and working conditions of plantation workers and farmers, will bring added value
- Codes of conduct need to be encouraged (KC)

- Sustainable sourcing criteria for bulk coffee will become important (KC)
- Future of globe, economically, socially and environmentally depends on sustainability, NGOs have promoted these ideas, international and national food companies are reacting. Sustainable issue does not substitute quality but represents an excellent argument in addition to the quality consumer wants (MN)
- Need sustainable production standards by type of coffee and type of farm structure – numerous efforts underway but they are not yet coordinated. Need objective verifying agencies, at acceptable cost to the farmer – which work on gradual point systems, not the black and white of today’s organic coffees (MN)
- Green coffee requires more cooperation, its marketing is bound to be long-term, more like an industrial flow organization allowing to respond to such novel demands of consumer and industry as traceability and food safety (MN)
- Coffee supply chain has to be reoriented to be more sustainable – examples of Nestle active participation include the Sustainable Agriculture Initiative and the DKV initiative (OT)
- Multiplication of sustainable initiatives – need to be coordinated and to define a commonly agreed set of guidelines under auspices of the ICO so that this approach could then be implemented in the mainstream business – Nestle would be happy to contribute by making public its own guidelines (OT)
- Would like to see private sector investing in long-term relations with suppliers through introduction of codes of conduct for purchase of coffee. Codes should comply with international guidelines and national legislation in producing countries. Should not only address social and ecological standards but deal with hard economic realities for building long lasting business relations. E.C. intends to play a proactive role in its dialogue with European coffee retailers, roasters, etc on adoption of codes of conduct and facilitating their contribution to improvements in coffee producing countries (BP)
- ICO is a good platform for this type of dialogue (re code of conducts) among all actors in the coffee sector – including private sector and NGOs. Coordinating with as many stakeholders as possible facilitates a smooth process of reform. Very important ICO monitors the different initiatives and builds synergies in process. Should overlap and promote the collaboration among the different donors and implementing agencies. But do not believe that the ICO should undertake the implementation of activities (BP)

V. DIVERSIFICATION

- Analyse accumulated inventories in consuming countries and compare their composition with the composition of import consumption. The coffee type with greatest share in consumer stocks than in roastings most likely has a long-term marketing problem of its own production – so diversification out of coffee into other products is the single most important element to achieve a better balance for the future (MN)

- Continue to raise diversification issue in WTO and other political forums. However, there are often local solutions of diversification and here donor organizations (international and national) must play an even more active role at this time (MN)
- Diversification can help to minimize impact of price fluctuations e.g. by diversifying in niche market products/ other cash generating crops or activities. This must be one of the key focus areas in sustainability work (OT)
- Diversification (but need to address issues of trade barriers and subsidies for agricultural products and comparative advantage) (several speakers)
- Supporting diversification in framework of a broad-based sustainable rural development strategy is part of solution – but personal opinion is that process should not be undermined by agricultural policies and subsidies of industrialized countries (BP)
- World Bank should cooperate on alternative uses of coffee and diversification (discussion)

VI. CREDIT/ RISK MANAGEMENT/FINANCE

- Donors need to assist with risk management mechanisms, possibly scaling up existing pilot programmes (KC)
- Hedging: a tool in the toolbox – a multi-tier approach needed for the coffee crisis (does not increase prices or eradicate price volatility, allow producers to cost effectively manage price volatility and secure financing (BT)
- Credit facilitation (KC)
- Risk management (KC)
- Financial institutions need to be encouraged to facilitate the access to price risk and trade financing instruments. This will not only mitigate the risks of short-term price fluctuations but will open up new financing mechanisms for commodity trade – these trade techniques are new in LDCs and require strong organizations. In context of risk management, E.C. supports work of the World Bank (BP)
- Market insurance is part of strengthening producer organizations to make them more financially viable (discussions)
- Brazil has an insurance mechanism – could be replicated through the support of international institutions (discussions)

VII. REMOVAL OF TARIFFS AND SUBSIDIES

- The need for industrialized countries to facilitate access to their markets by removal of tariffs and quotas, and complex import licensing systems (JMS)
- The removal of subsidies to support uncompetitive agriculture which accounts for 5% of its GDP and 10% of the workforce (JMS)

- Agricultural subsidies and tariff barriers in developed countries (e.g. USA and EU) should be eliminated as they effectively limit coffee farmers who want to cultivate other crops which could provide them with alternative source of income (OT)
- Need to end agricultural export subsidies by rich countries – trade distorting. Stop destructive dumping (PB)
- Kraft firmly believes any solutions should be based on market based principles. Working in the world economic forum agricultural trade task-force to help lobby for an even playing-field between North and South, to urge liberalization of global agricultural trade and reduction of market distorting subsidies. (AW)

VIII. AID RESOURCES

- Organizations such as the ICO and World Bank should encourage bilateral aid agencies in developed countries to direct assistance toward horizontal diversification projects, and other products which could generate cash income in the place of coffee (JMS)
- Global Alliance has proposed a European Action Plan giving increased assistance to coffee growing countries to help them diversify faster out of coffee – propose E.U. fast-track unused STABEX funds – but has been told not practical (PB)
- Global Alliance has proposed E.U. to use trade and aid facility to work with producing countries who publicly state they want to take worst quality and loss making coffee out of production – E.U. replied key countries are managed out of Relex and external relations only concerned with the war right now (PB)
- Need to mobilize aid resources to restructure coffee sectors from international donors including EC, WB, CFC, bilateral donors and NGOs – coordination is key – joint efforts are a major challenge for commodity producing countries and donors (BP)
- All donors should work through a common national framework such as a national development or poverty reduction strategy. Also propose setting up a ‘gentleman’s agreement’ among donors for financing in the coffee sector – to ensure we work in the same spirit and do not finance activities that aggravate current situation. This could be elaborated under the umbrella of ICO and its implementation monitored by informal ‘coffee donor alliance’ (BP)
- Together the bilateral aid institutions have more resources than the E.U. Once donors join forces, they play a better structured role in the coffee sector. ICO needs to invite the donors (discussion)

IX. VALUE ADDED

- Increase value added for producers through alliances of producers/importers (GSL)

- Direct procurement system set up by Nestle – farmers can bring produce directly to buying stations where they are paid a price representing a higher share of world reference price. Bonus given for higher quality coffee. Helps to simplify supply chain, induces quality improvement as payment is based on quality criteria, providing farmers with an alternative sales channel (OT)
- Need to redistribute value added equitably (discussion)

X. COOPERATION/ POLITICAL FORUMS

- Consumers as well as producers must work to resolve the problem, governments and industry in consuming countries must play a leading role in finding solutions before there is social and economic collapse in producing countries (JMS)
- Solution to the crisis is political rather than economic. Need for vision and to include coffee on the international political agenda and discuss it in international forums such as UNCTAD, IMF, World Bank, G8. The round-table is a step in this direction (JMS)
- Integrate commodity issues into international strategies in the light of lasting development (SCD)
- The coffee crisis should be a priority for discussion in international forums and in the framework of development policy of major financial institutions (UN, World Bank, G8, etc) (SCD)
- Coordinate national solutions at the international level; World Bank could provide technical assistance to countries (GSL)
- Call for dialogue among all actors to create a coffee market management initiative to bring coordinated investment in market information, diversification, quality improvement, stock destruction, import and export taxes, quotas and a more competitive market structure which together can bring better balance in supply and demand (PB)
- Call on G8 governments to join with producer countries at June 2003 summit to establish a Commission on Coffee to recommend the actions needed to reduce price instability and market concentration. Need a small team of open minded experts drawn from across the industry with a well resourced secretariat, reporting back to ICO (PB)
- Coordinating approaches of producers with the support of the World Bank and ICO, Oxfam as an information mechanism, a clearing house for all initiatives (discussion)
- Make a link at Cancún between commodity trade and poverty reduction (GK)
- Would like to see a concrete E.U. plan of action for the coffee crisis (GK)
- Potential confluence of donors, producers, NGOs, etc for moving ahead with a responsible agenda (discussion)

XI. U.S. MEMBERSHIP

- US membership of the ICO is important (witnessed by growing concern of the U.S. congress which has passed two resolutions) (JMS)

- A concerted lobby of the U.S. administration to rejoin ICO – needs to happen by 1 June though President Bush's enthusiasm for solving global problems in multilateral forums is well hidden (PB)

XII. MARKET INTERVENTION MECHANISMS

- Quotas protected inefficient production system and lack of innovation in green coffee – outmoded (MN)
- Market economy must prove to be more creative, resilient and forward looking to avoid repeat of crisis (MN)
- Important to learn lessons from the past and not fall back on non-market based controls and interventions (KC)
- Current free market has failed (PB)

XIII. STRENGTHENING CAPACITY / RESTRUCTURING

- Need for a revolution in the coffee industry, but with public investment. Reconstruction and rehabilitation of industry institutions (GSL)
- Large market open for battered farmer, provided he/she adapt to the new times and are helped along in this process by the relevant institutions (MN)
- Agricultural and business education is the name of the game. Every assistance must be given in that direction. Computer and internet must find access to more rural areas of coffee production (MN)
- Strengthening producers and their organizations (KC)
- Most countries will need to implement coffee restructuring strategies to make coffee sector competitive again and search for other sources of income (BP)
- To become more competitive – coffee farmers will need to reduce costs of production and commercialization and focus on marketing to benefit from more rewarding markets – E.C. proposal for worldwide comparative analysis will provide broad policy framework for countries to formulate their own coffee restructuring and diversification strategies (BP)
- Coffee farmers and farmer organizations will need to reduce the costs of production and storage (BP)
- E.C. ready to support individual countries to prepare and implement restructuring strategies through regular development cooperation instruments, provided there is an explicit request and commitment in this sense from national governments (BP)
- Urgent support needed to strengthen producer organizations and their bargaining power (discussion)
- Implementing code will require people and monitoring resources, development agencies, institutions, local and international development as well as participants in the project. Kraft started this capacity-building project a number of years ago in cooperation with national and international development agencies and the results showed that these efforts made a difference. (AW)

XIV. RURAL DEVELOPMENT

- Broad rural development is necessary. Long-term solutions should include commodities, coffee as part of a country's overall rural development agenda (KC)
- World Bank updated its rural development strategy with strong regional specificity and focus on implementation – key thrusts include enhancing agricultural productivity, investing in rural infrastructure, encouraging rural non-farm economic growth, better donor cooperation and harmonization, improving social well-being, gender equity, managing risk and reducing vulnerability, fostering an enabling environment for broad-based sustainable economic growth (KC)
- Governments can help alleviate impact of fluctuating prices. In LDCs, main task of governments should be to strengthen rural sector, with support of bilateral and multilateral development assistance. Should be a priority since 70% of world poor live in rural areas and most of them are farmers. Reverse trend of decreasing rural development. Income stabilization (e.g. Stabex) could provide resources to help with diversification in periods of over supply (OT)
- Part of solution lies in intensified efforts to support long-term economic development in the affected countries (BP)
- Government and coffee sector boards – together can define and create an enabling policy environment for private sector development. Can help to reduce costs of production and commercialization through improving equitable access to affordable infrastructure (roads, telecom, water and electricity) for the major production areas (BP)

XV. ICO AS A FORUM

- Brazil participates, respects, urges all to participate actively in ICO, seeking solutions of interest to all e.g. increasing consumption in Eastern Europe, Asia, etc. and financial support for exporters to work with greater stock for longer-term (LCL)
- No question in this arena (sustainability) there are broad functions for the future ICO. Believes very much in coordinating work with public international and national donors, food companies and trade and their associations, the NGOs community in conjunction with the governments and private sector of producing countries (MN)



The World Bank



International Coffee Organization

**ICO-WORLD BANK HIGH-LEVEL ROUND-TABLE
“INTERNATIONAL COFFEE CRISIS – LOOKING FOR LONG-TERM SOLUTIONS”**

International Coffee Organization, 22 Berners Street, London – Monday, 19 May 2003

PROGRAMME

- 08.45 – 09.15 Briefing for panellists (Committee Room, ground floor)
- 08.45 – 09.30 Registration and coffee
- Panel 1 Coffee and commodities in international trade: A problem area**
- 09.30 – 10.00 Welcome address
Néstor Osorio – Executive Director (Moderator)
- 10.00 – 10.20 Kevin Cleaver, Director, Agriculture and Rural Development, World Bank
- 10.20 – 10.40 Saint-Cyr Djikalou – Permanent Representative of OAMCAF to the ICO and former Minister of Commerce, Côte d’Ivoire
- 10.40 – 11.00 Linneu Carlos da Costa Lima – Secretary for Production and Marketing, Ministry of Agriculture, Brazil
- 11.00 – 11.20 Bernard Petit – Director, Directorate General for Development, European Commission
- 11.20 – 11.40 Juan Manuel Santos – former Minister of Finance, Colombia
- 11.40 – 12.00 Glenys Kinnock, MEP, European Parliament
- 12.00 – 12.30 Panel discussion followed by questions and answers
- 12.30 – 14.00 ***Lunch break (participants are free to make their own arrangements for lunch)***
- Panel 2 Finding solutions – Diversification, quality, added value and market development**
- 14.00 – 14.15 Introduction
Panos Varangis, Lead Economist, Commodity Risk Management Group, Agriculture and Rural Development, World Bank (Moderator)
- 14.15 – 14.30 Phil Bloomer – Head of Advocacy, Oxfam GB
- 14.30 – 14.45 Simon Kester – Chairman, European Coffee Corporation
- 14.45 – 15.00 Michael R. Neumann – Chairman of the Board of Management, Neumann Gruppe GmbH, Hamburg
- 15.00 – 15.15 Gabriel Silva Luján – General Manager, FEDERACAFÉ
- 15.15 – 15.30 Olle Tegstam – Senior Vice-President, Nestec Ltd.
- 15.30 – 15.45 Bruce Tozer, Managing Director, Structure, Trade and Commodity Finance, Rabobank International
- 15.45 – 16.00 Annemieke Wijn – Senior Director, Commodity Sustainability Programs, Kraft Foods Inc.
- 16.00– 17.30 Panel discussion followed by questions and answers
- 17.30 – 18.00 Concluding remarks by Néstor Osorio, ICO and Kevin Cleaver, World Bank
- 18.00 – 20.00 ICO/World Bank Reception** **Sponsored by RABOBANK**
- Rapporteurs: Panel 1: Pablo Dubois, Head of Operations, ICO
Panel 2: Sergio Jellinek, Office of the Vice-President for Environmentally and Socially Sustainable Development, World Bank



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