



Organización Internacional del Café
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Coffee crisis

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Impact of the coffee crisis on poverty in producing countries

Background

1. In 2000 the United Nations agreed a set of millennium development goals which emphasised the commitment of the international community to reduce extreme poverty worldwide. This goal of poverty reduction has become a prime focus of development policy for multilateral institutions and groupings of net donor countries such as the European Community.
2. Coffee is one of the key traded commodities for developing countries. Because it can only be grown in frost-free areas coffee production is particularly crucial to non-arid countries in the tropics and is a vital source of foreign exchange, cash income and employment in such countries, many of which are classed as Least Developed (LDCs). In the late 1980s earnings by coffee producing countries (exports f.o.b) were some US\$10-12 billion. Today coffee producing countries only receive around US\$5 billion. Prices on world markets, which averaged around 120 US cents/lb in the 1980s, are now just over 50 cents, the lowest in real terms for 100 years. At such levels coffee farmers face immense problems, which are giving rise to a series of negative consequences.
3. In order to provide further evidence of the way the coffee crisis poses a threat to attaining the goal of poverty reduction the Executive Director has asked representatives of coffee producing countries in a letter dated 14 July 2003 (Annex I) to provide a brief description of the impact of the coffee crisis in their countries. By 10 September 2003 responses had been received from 14 countries, which are summarised below. It may be noted that adverse consequences of the crisis include in many cases social and environmental as well as economic effects. The crisis therefore constitutes a clear stumbling block to sustainable development in affected areas and countries.

Action

The Council is requested to consider this document.

SUMMARY OF RESPONSES FROM COFFEE PRODUCING COUNTRIES

CAMEROON

Scale

Two million people are dependent on coffee in a population of 15 million.

Income

Low prices have contributed to reducing production from high levels in the 1980s and 1970s of 124,000 tonnes of Robusta and 31,000 tonnes of Arabica to the present totals of 32,000 tonnes and 5,600 tonnes respectively.

Employment

Many agricultural workers have lost their jobs.

Social

In view of the above many young workers have migrated to the cities which are seeing increased crime rates. In rural areas less money is available for health care and education, leading to reduced life expectancy and reduction of educational levels.

CENTRAL AFRICAN REPUBLIC

Income

Faced with low income from coffee many small producers have abandoned their farms; others have turned to food crops, reducing the country's foreign exchange earning capacity. Especially as the country is landlocked, coffee is uncompetitive at present prices.

Employment

Many traders have left the sector and many rural workers have lost their jobs.

Social

There has been a widespread migration of young people from the country to the towns. Farmers are leaving coffee growing and are bereft of cash earnings to pay for education, health care, clothing and construction. Poverty has increased substantially.

Other effects

Those producers who continue are reducing the care given to their coffee trees, with a consequent drop in quality.

COLOMBIA

Scale

The coffee industry has been the principal motor of Colombian economic and social development. For many years coffee was the principal contributor to export earnings and, though its share in total exports revenue has declined, it contributed almost US\$890 million in 2003, about 7% of export income.

As the world's second largest producer with 11.6 million bags in 2002, the coffee culture has assisted in the creation of an economic and social infrastructure within its area of about 800,000 hectares and its area of influence extends to some 3.6 million hectares.

There are 566,000 coffee growers and there are currently some 480,000 families who are directly dependent on coffee production.

Income

In this sense, coffee, including activities related to its cultivation and processing, is still one of the major industries and the first agricultural export item in the country. The average share in the gross domestic product (GDP) and in total agricultural and industrial production during the last six years accounted for an average of 1% of GDP and 10% percent of the total production of both the agricultural and industrial sectors.

However, at a national level, low international prices have reduced coffee contribution to the total economic activity, from 5.3% to 1.3% of GDP during the period 1990 to 2002. Exports earnings have decrease by US\$1.5 billion between 1999 to 2002 due to fall in international prices.

Additionally, as measured by the real value of the coffee crop, the coffee sector's income has fallen by 50% during the last decade, from US\$ 1.5 billion to US\$737 million last year.

Employment

The coffee industry provides direct employment for some 530,000 people, accounting for 30% of total rural employment. An additional 2 million people are directly and indirectly dependent on the coffee industry.

Notwithstanding, if the crisis continues the National Federation of Coffee Growers estimates that approximately 100,000 more people may lose their jobs in the sector.

Social

Given its role as a major source of employment in the rural sector, coffee continues to be indispensable. Coffee has been a major influence in regional development. It has assisted in the creation of an economic infrastructure and a social safety net.

As a result of the international crisis in the coffee sector, coffee producers' welfare has been severely affected, and there has been a high human cost. According to the research centre *Crece* (2003), due to the reduced profitability of the coffee sector it is estimated that the number of households in coffee growing areas living under the poverty line rose from 54.2% to 61% between 1997 and 2000.

Coffee growers have become poorer with an increase in sub-standard living conditions and some have been unable to pay for their children's education. There has been an increase in levels of malnutrition.

Other effects

There has been increased migration to urban centres, especially young people. Some farmers in marginal regions are also replacing coffee by illicit crops, grassland or abandoning plantations

COSTA RICA

Scale

In a population of 3.9 million in 1999/2000 there were some 73,700 registered coffee producers, a figure which dropped to 70,500 by 2001/2002, as a result of the crisis.

Income

Since costs of production are not currently covered by prices received farmers have reduced plantation care or abandoned coffee.

Employment

Job losses in the coffee sector are estimated at 10,000.

Social

In the Brunca region, one of the main coffee areas, homes classified as in extreme poverty (per capita income below the cost of the basic food basket) represented 11.8% of the total in 1998. In 2002 this had risen to 13.1%. The national figures were 7.1% and 8.8% respectively.

Other effects

The crisis has had a negative impact on trade, transport, warehousing and the financial system.

CÔTE D'IVOIRE

Scale

Coffee with cocoa forms the basis of the economy for around 7.5 million people out of a population of 17 million. At least 2.5 million people are directly employed in coffee and cocoa.

Income

Reduced fiscal revenues from coffee have severely affected the national investment budget constituting a break on development. Producer prices have fallen from US 41 cents per lb in 1997 to 15 cents in 2002.

Social

The drop in income from coffee has been somewhat compensated by earnings from cocoa. Nevertheless rural living standards have dropped, and many families are finding problems to pay for education.

Other effects

Levels of care for coffee trees have been reduced, with a consequent drop in quality.

ECUADOR

Scale

There are 105,000 coffee families in Ecuador, with an estimated 800,000 people involved in coffee out of a population of 12 million.

Income

Prices received in the 2003 harvest do not even cover harvesting costs, so many farmers are neglecting or abandoning plantations, or replacing coffee by annual crops or grassland.

Employment

The coffee processing industry is working at one third capacity and has dismissed staff.

Social

Many producers are migrating to cities or abroad, leaving their families behind.

Environmental

Replacement of coffee by annual crops or grass is causing an adverse environmental impact since coffee is normally grown under shade.

Other effects

Research and extension institutions have needed to lay off staff.

EL SALVADOR

Scale

There are around 20,000 coffee growing families in a population of 6.4 million.

Income

Producers have incurred losses since 2000. Current debts of coffee growers are US\$334 million, equivalent to US\$257 per quintal produced in 2002/03, four times the current export price of US\$60 per quintal. Reductions in coffee earnings have had a depressing effect on many other economic areas.

Employment

With respect to salaried employment the crisis has led to permanent job losses of some 113,000.

Social

The World Food Programme has needed to distribute emergency rations to 10,000 coffee-growing families. In many coffee-growing areas malnutrition is affecting 45% of children. In 2003, 52 children in coffee areas have died from malnutrition. 25% of farmers are seeking to sell their land or change their activities and 8% intend to emigrate to the USA.

Environmental

Shaded coffee is practically the only still-forested area in the country. The threat to coffee is thus likely to cause further deforestation.

Other effects

Incidence of coffee berry borer infestation has increased with potential losses of 40,000 bags.

ETHIOPIA

Scale

About 25% of the population of 65 million depends on the production, distribution or export of coffee. There are some 1.2 million coffee farming families.

Income

Many people in the coffee sector are now living on less than US\$1 per day. Farmers are now selling coffee at prices well below the cost of production. Since coffee on average constitutes over 50% of export earnings the government is suffering severe fiscal constraints.

Employment

It is stated that there has been a considerable reduction in employment.

Social

Coffee farmers are now unable to pay for their children's education and for basic medicines. They have also had to cut back on food consumption, living on one meagre meal a day, with frequent cases of malnutrition. There has been increased migration to urban centres, swelling urban unemployment.

Environmental

The environmental impact has been negative with abandonment of coffee farms.

GHANA

Scale

Ghana is a small producer; several hundreds of farmers have coffee as a main source of income.

Income

Prices received by farmers are more volatile as well as lower since marketing system liberalization. The producer price share of the fob price has moved from 56.93% in 2000 to 55.70% in 2002. Current prices do not cover production costs.

Social

Coffee represents a cash crop element in subsistence farms; cash shortfalls mean less money for health and education. Some farms have been abandoned.

Other effects

Several local traders (licensed buying companies) have closed or been rendered ineffective. There are now 5 active companies out of 50 which are eligible to trade.

INDIA

Scale

There are some 500,000 coffee workers.

Income

Growers find it difficult to cover production costs at present price levels and are reducing inputs and their work force. The sector is facing a credit burden of loan service said to be unmanageable, with a consequent unavailability of further loans from the banking sector. Production is decreasing.

Employment

There have been widespread lay-offs.

Social

Poverty levels have increased significantly in the Western and Eastern Ghats areas.

Environmental

Coffee is mainly grown under shade but growers are now tempted to remove trees and sell them as timber, leading to deforestation and loss of ecological balance. The Western Ghats are rated as one of the 14 most sensitive ecological areas in the world.

NICARAGUA

Scale

Agriculture, in which coffee is the main activity, is the principal source of employment. 270,800 jobs exist in the coffee sector. Total population is 5.2 million.

Income

At a national level shortfalls in foreign exchange earnings caused by the coffee crisis are estimated for 2000/01 – 2002/03 at US\$142 million through falls in volume and US\$165 million through falls in price. Losses in income tax collected are estimated at US\$13.2 million.

Employment

Job losses caused by the crisis are estimated at 122,000.

Social

There has been a substantial increase in rural to urban migration, although there is no demand in the cities for this type of labour. There have been several demonstrations demanding work in coffee areas.

Other effects

Low prices have discouraged care of coffee trees and limited access to credit.

PAPUA NEW GUINEA

Scale

Papua New Guinea has a population of 4.9 million. It is estimated that just over 50% of households depend on coffee for all or part of their income.

Income

During the period of the crisis, from 1998 to 2002 PNG's GDP fell 3.5% in real terms. In the main smallholder coffee sector the average return per man-day is estimated at US\$1.

Employment

There has been a 40% decline in formal employment in the estates sector, which accounts for some 15% of production, between 1998 and 2002. There have also been substantial layoffs in the research and extension services dealing with coffee.

Social

Many smallholders are experiencing difficulties in paying for medicine, bride price, school fees, meat and fish, etc. In the Eastern Highlands 50% of parents have not paid their children's school fees this year.

Other effects

The Government of PNG has conveyed that the coffee crisis has increased poverty, slowed down economic growth, curtailed employment prospects and has had a negative impact on the balance of payments.

PHILIPPINES

Income

With production costs at roughly US\$300 per ha. and revenue from coffee per ha. at US\$256 at current prices coffee production is not economic.

Employment

There is stated to be a widespread unemployment problem in coffee areas.

Social

Coffee farmers have become poorer with substandard living conditions. Land owners are unable to pay taxes and many farms have been abandoned.

Other effects

Quality has suffered from lack of fertilization, improper harvesting and other factors linked to price levels.

VIETNAM

Scale

Coffee is one of the main economic activities in the Central Highlands, particularly in the province of Dak Lak, whose population is around 2 million.

Income

When coffee prices were high, as in the mid-1990s, 1kg of coffee could be exchanged for 5kg of rice. This had dropped to 1 for 1 in 2002.

Social

A March 2002 survey showed that 45% of coffee-growing families lack adequate nourishing food, and 66% have bank debts. Many children from medium to poor households have left school in view of the costs involved.

**TEXT OF LETTER SENT TO
REPRESENTATIVES OF COFFEE PRODUCING COUNTRIES**

14 July 2003

In my submission to the G-8 Summit in June 2003 I explained that the current situation of extremely low levels of coffee prices which has lasted now some three years has led to great social and economic hardship in coffee producing countries.

In order to provide the greatest possible evidence of the effects of the coffee crisis I am writing to ask you to send me a brief description of the impact of the crisis in your country particularly with respect to poverty as well as on the development process.

I am sure you are aware that all United Nations' Members agreed in September 2000 on a series of millennium development goals setting targets for the reduction of poverty and the improvement of global living standards.

Sadly the evidence I have indicates that the situation of the world coffee market poses a real impediment to attaining these goals. In consequence I believe that additional support for action to deal with the coffee crisis could be mobilized if a clear picture could be presented on its impact on individual producing countries. If you could provide me with an approximately two page summary of the effects of the coffee crisis related to poverty in your country it might be very helpful to secure appropriate support for relevant action.

It would be most helpful if you could reply to this request by 15 August 2003.

Yours sincerely,

(signed) Néstor Osorio
Executive Director