

ICO – WORLD BANK

**Statement by Bernard Petit,
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Let me first express my thanks to the organisers of this important event, the International Coffee Organisation and the World Bank.

As everybody around this table, we are well aware of, and very concerned by the fall in world coffee prices for many farmers in the developing world, in particular in the poorest countries.

This coffee crisis poses new challenges and there is no miraculous solution to face them, but instead a combination of different policies and actions involving all the actors.

My intention is to share with you some views of the Commission on these matters, bearing in mind that the reflexion is going on, in particular in my Directorate, on coffee, but more generally on the global problem of commodities. The outcome of this reflexion will be a working document, an issues paper on which I would like to consult some eminent persons involved in the commodity business : producers, traders, NGO's, academics, etc ...

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To start with, I must say that I sympathise with this round-table's focus on long term solutions. This reflects my own conviction that, however much we wish things were different, in this game there are no quick fixes. Part of the solution lies certainly in intensified efforts to support long-term economic development in the countries affected by the current crises. This is why I am not sure that initiatives such as the destruction of coffee bags, is the answer to the crisis. Obviously such an initiative may give some temporary relief. But it may also undermine the necessary restructuring efforts and thus aggravate the situation in

the long run. The same applies to other interventionist measures that have been proposed for the coffee market.

Secondly, from the perspective of poverty reduction – the overall objective of the institution I am representing, today’s “coffee crises” is not a crisis for everybody : there are winners and there are losers. The worst affected are the farmers and labourers in the coffee dependent countries that produce at relatively high cost, and this is the case in the poorest countries.

I see three main causes for the current low prices:

- First, prices on the world market are declining, mostly due to technological innovations that reduce the costs of production;
- Second, coffee prices show cyclical trend. Ten years ago prices were almost as low as today and five years ago prices were high. These cycles are difficult to avoid.
- Third, this time the coffee crisis also has a structural dimension: the expansion of new coffee producing areas, supplying the market with low cost Arabicas and low cost Robustas.

In my view the prime responsibility for action lies with two parties: governments of coffee producing countries and the direct stakeholders of the coffee chain.

As price-takers in the world market, the coffee-dependent countries can not fight the current price structures. Instead, they need to find ways of coping with the long and short-term price decline. As far as I can see, this means for most countries, implementing coffee-restructuring strategies that have two aims: making the coffee sector competitive again and searching for other sources of

income. I notice that that is also the view of World Bank. Some Latin American countries, already have experience with the restructuring of their coffee sectors. Most African countries are yet to take off on it.

When I talk of improving competitiveness, I have two complementary elements in mind. The first is the reduction of the costs of production and commercialisation. The second is the focus on marketing to benefit from more rewarding markets.

Regaining a meaningful place on the world market will involve different things for different countries: Every country must make its own assessment of the situation, find its own weakest points and opportunities, build an appropriate strategy and find the resources for its implementation. The EC tabled a proposal in the ICO to undertake a Worldwide Comparative Analysis of major coffee producing areas, that will provide a broad policy framework for the countries to formulate their own coffee restructuring and diversification strategies. The study will be implemented in the second half of 2003.

Different actors and strategic efforts could be targeted in the national coffee strategy:

- First coffee farmers and farmer organisations. these actors will need to reduce the costs of production and storage. They could also upgrade the quality and develop the marketing potential by product differentiation: think of organic, fair trade, origin and coffees, etc. This requires professional businesslike farmer organisations.
- Second the financial institutions. 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 also open up new financing mechanisms for commodity trade. These new trade-financing techniques are quite new in developing countries, but do require strong organisations. In the context of price risk management, the work of the World Bank is commended. The Commission supports this initiative.

- Third the government and the coffee sector boards. Together, these actors can define and create an enabling policy environment for private sector development. Governments can assist in reducing costs of production and commercialisation through improving equitable access to affordable infrastructure (roads, telecom, water and electricity) for the major production areas. Many countries introduce currently regulations to prevent that substandard material comes into coffee chain. This is an effect of the important ICO- quality resolution that we strongly support from its initiation to the implementation, including the need for monitoring of compliance in both producing and importing countries.

My third remark is to stress that the strategies require a receptive and supportive international business community that acknowledges the problems of these countries and assists in making the coffee sectors healthy again. As I understand, international corporations have an interest in ensuring a broad-based supply enabling them to purchase different qualities from a wide range of suppliers. In this respect, we would like to see the private industry investing in long-term relations with suppliers –based on mutual benefit- through the introduction of codes of conducts for the purchase of coffee. These codes should comply with international guidelines and national legislation in producing countries. Codes should not only address social and ecological standards, but also deal with the hard economic realities for building long lasting business relation. The retailers (such as supermarkets) and some traders seem more advanced in this respect

than the roasters. The introduction of codes of conducts in the sector is commendable, as was also acknowledged by NGO's and the European Parliament.

The EC intends to play a pro-active role in its dialogue with European coffee retailers, roasters and traders on the adoption of these codes of conduct and facilitating their contribution to improvements in coffee producing countries.

We believe that the International Coffee Organisation is a good platform for this kind of dialogue among all actors in the coffee sector. This includes the private sector and non-governmental organisations. Co-ordinating with as many stakeholders as possible facilitates a smooth process of reform. It is very important that the ICO monitors the different initiatives and builds synergies in the process. It should avoid overlap and promote the collaboration between the different donors and implementing agencies. But we do not believe that the ICO should engage itself into the implementation of activities.

Fourth remark : in addition to private capital, there will also be a need to mobilise aid resources for the restructuring of the coffee sectors from international donors, including from the European Commission, World Bank, Common Fund for Commodities, bilateral donors and NGO's. Donors like my own institution have an important responsibility to not undermine the efforts of others –coordination is key. Joint efforts constitute in my view a major challenge for commodity producing countries and donors.

In addition, with respect to donor support I have two specific suggestions. In the first place, it is important that all donors work through a common national framework, such as a national development or poverty reduction strategy. The second is a proposal to set up “a gentlemen's agreements” between donors for

financing in the coffee sector”. The intention of the gentlemen’s agreement is to work in the same spirit and make sure that we do not finance activities that aggravate the current situation. This gentlemen’s agreements could be elaborated under the umbrella of the ICO and its implementation be monitored by an informal ‘coffee donor alliance’.

Since I am talking about donor support and finance, I need to bring some clarification on the Commission’s situation. There have been allusions in the press to substantial stacks of money lying around in Brussels, only waiting to be spent for coffee restructuring efforts. Although a very attractive idea, this can unfortunately only be qualified as a major misunderstanding of the real situation.

- Let me clarify: At the time of the entry into force of the Cotonou agreement, 2.7 billions euros were still available for commitments and 11.1 billion for disbursements, under the previous Lomé Convention. However, contrary to the general perception, these funds are not freely available, because most had been allocated to national programmes and specific instruments. But since the funds are based on national priorities and committed within the context of the PRSP, countries can re-allocate their resources to newly identified priorities, if they wish to do so. This also includes the restructuring of the coffee sector.

This being said, let me nevertheless assure you that the EC is ready to support individual countries to prepare and implement restructuring strategies through our regular development co-operation instruments, provided there is an explicit request and commitment in this sense from national governments.

In addition let me remind that in the Cotonou agreement we have introduce specific previsions in order to mobilise additional funds from the EDF to

palliate the short term effects of instability in export earnings on Government revenues, in particular by providing additional budgetary support to the countries concerned.

A last remark on diversification : supporting diversification in the framework of a broad-based sustainable rural development strategy is part of the solution. But this implies that the process is not undermined by the agricultural policies and subsidies of the developed countries.

In this respect, most coffee dependent countries suffering from the crisis are LDC's.

With the EBA initiative the European Union has opened up all markets to LDC's.

I encourage other countries to follow our example.