

Thank you Mr. Chairman,

I would like first of all to congratulate the organisers of this important event, the sponsors and all those who have worked to make this conference a big success. Coffee is part of our history, is part of the history of many countries which are present today here. It is a timely opportunity to celebrate its past as well as to pay tribute to the leaders of the coffee industry, the leaders of coffee in our countries and Jorge Cárdenas is certainly one of the most distinguished of them, he has shown the way to us and we thank him. But it is time also to prepare for the future, to prepare for the new realities of the twenty-first century and certainly is time to do that now at a critical moment for coffee producers but crisis may perhaps be the right moment for introducing changes and for innovation and I hope this conference may be a turning point in our efforts to change.

In 1892, in a dispatch to the Brazilian Minister of Agriculture, José Maria da Silva Paranhos, then Consul in Liverpool, and later Baron of Rio Branco and the patron of Brazilian diplomacy presented to his government his recommendations on how to promote Brazilian exports of coffee. What is important, he said, is not only quantity but quality. What is important is not only to export more, but to achieve higher prices. It is essential, he continued, to organise fairs and exhibitions to advertise coffee, and to ensure, and I quote, that the Brazilian coffee be found for sale in the large consumer centres and in well-known retailers under its true name “the good coffee of Brazil”.

One hundred and nine years later, I keep saying more or less the same things in my dispatches to my government, but perhaps with a little bit more success and when I see the logo of Cafés do Brasil here I think that I have a little bit more success than the patron of my diplomacy.

I am not talking on behalf of Brazil today, I am talking on behalf of the Association of Coffee Producing Countries which I have the honour to preside. I think that the advice of the Baron of Rio Branco perhaps applies to all producing countries even at this moment. We need to improve quality, we need to promote coffee, and we need to add value. All this advices are perhaps more timely than ever.

After so many distinguished speakers I think I have very little to add as to the diagnosis of the present situation. Indeed, I have to tell you that I am a little bit confused, that I realise that everybody agrees on things that are not happening and that people don't want to do. Everybody agrees that the present market is a big problem, that part of it comes from the imbalances in the market, that protectionism has a role to play in this present situation. The World Bank makes a *mea culpa* by having conducted, induced, sometimes forced the dismantling of coffee boards without having put anything in its place; but, in the other hand I don't see many vigorous changes or movements in order to correct this issues.

I am not going to talk on the diagnosis but I like to make just one point, which I think is an important one; the present crisis seems to be different from the previous ones. It is not only because the declining prices seem to be more profound, we have now lower prices perhaps than ever, in real terms, but because the nature of the problem seem to be different. This does not seem to be a cyclical crisis as in the past for two reasons, first, because at the end of the twentieth century we enter a new economy. The comparative advantages no longer derive only from the size of land or the price of labour, more and more they depend on the knowledge content of the product, on the education, on the skills of labour, they depend on technology, information, processing, branding and distribution. The second difference comes from the liberalisation of the markets, which I think all of us support, not perhaps on the way it has taken place. The termination of the quota system of the ICO, the dismantling of coffee boards, the concentration of trade and industry in the hands of a few companies, the accession of new players into the market, the accession of new players in the trading as pension funds has completely changed the picture. As a result of that, the previous forms of management supply are not longer possible. If we combine both developments, liberalisation in the context of low demand, the gains of productivity, the gains which result from currency devaluation are transferred to consumers, but because of concentration of trade and industry in the hands of a few groups, gains are not transferred to the final consumers in the supermarkets but they are captured by trade and industry. This point is illustrated by some figures, producers may capture 20 percent of the final price of coffee, but in some cases the percentage of their participation is as low as 6 or 7 percent of the final price, and industry, as an average captures 30 percent. The producers lose but the consumers don't gain.

Prices might go up, perhaps not as much as they use to go in the past, because we have also a different structure on the producers' side, but the share of prices in the productive chain sets a

limit for the gains, which those who only produce can expect to achieve. Coffee is not an isolated issue; this problem seems to be coming into other commodities, I would say for most food commodities that prices are lower than in the seventies. If you compare present prices with the prices which prevailed in the seventies the prices for coffee are 46 percent lower, for cocoa 55 percent, for tea 45 percent, for sugar 54 percent, for bananas 66 percent. Since some producing countries mainly in Africa have 80 percent of their exports in commodities and 50 percent in Latin America, this is a clear indication and perhaps an explanation why the gap between some developing countries and industrial countries is widening instead of reducing. But let's come to the case of coffee. Traditionally, in face of a reduction in prices, two solutions were available and two solutions were applied. First, some different forms of supply management. Brazil for instance, burnt coffee in the thirties. The ICO set a quota system, but certainly these solutions no longer exist and we are not claiming for them to come back. What producers can do now is what they did recently, that is a kind of a voluntary retention by producers in order to reduce stocks, because as you know, there is a correlation between the amount of stocks in the hands of consumer countries and prices. In December 1999 stocks were around 10 million bags, prices were 95 cents per pound. In October 2000 stocks have increased to 18 million bags and prices were at 56 cents per pound.

Retention was able to take off the market up to 7 million bags. If it is true that not all countries participated, it is also true that some countries participated more than expected, and we were able to take out of the market 7 million bags. If we consider some additional retention by some countries in the form of commercialisation financing, this retention which has been made by some producing countries can reach 10 to 12 million bags. So, if this happened why didn't prices go up? It was because we faced a situation of overcapacity. There is a substantial excess of supply over demand and if we consider the three last years, this excess amounts to 22 million bags. So, what happened is that if we were withdrawing from the market something around 10 million bags, on the other hand, stocks were growing because the amount of the oversupply more than offset what was being retained. The prospect might be that this excess of supply over demand may increase because there is an increase of production in some countries, Vietnam now produces 13 to 14 million bags, in two or three years it might reach 15 to 16 million bags. If perhaps retention helps to avoid a further decline in prices, much more has to be done if we are to ensure the increase in prices, and everybody knows that retention was not set up as a solution but as a temporary device because countries which are doing it cannot afford to provide financing indefinitely.

The second traditional resort to oversupply or to decline in prices, and this is the law of economy, is market adjustment. It is unavoidable, there is a need either to try to reduce supply in an orderly way or the markets will do it. The ACPC believes however, that just letting things happen and let the markets adjust the prices is something which we should try to avoid, if we have to reduce supply, I think we should try to reduce it in an orderly and cooperative way and not through an unimpeded action of the markets and for some reasons, because this may bring about a deterioration of quality. With less money producers will not have the resources to pay for fertilizers and to care for their crops. There is no solution for the medium term, because this will reduce suddenly the capacity to produce but this is not going to help farmers to prepare for the new realities of the future, and after a while we will come back to the same situation we face now and mainly this is not an advisable way out, because it has a very serious social impact on already impoverished countries. There are countries which have 70 percent of their export revenues deriving from coffee. A large number of around 50 least developed countries, which have just met in Brussels, and which are a serious concern of the international community, a substantial part of them derive their export revenues from coffee. Thus, this will increase the problems in their balance of payments on the *fiscal side*, on growth, and this will lead to outright poverty.

The forgiveness of debt by industrial countries is certainly a very positive step and a praiseworthy effort, but it makes no sense at all to give with one hand and to withdraw with the other hand. But what are then the responses if the initiatives we used to have in the past do not seem to be the right way now. I would like to mention some options: promotion is certainly important, and this might be an area for cooperation between producing countries and the industry. We have much to gain in working together, either to promote coffee where is not yet drunk or to increase the consumption in consumer countries now. I think the example of olive oil producers is certainly an example we should keep in mind.

Improvement of quality is another important development. We have now the proposal of a group of Central American countries which was approved by the ACPC to work together to reduce supply by eliminating a portion of bad qualities of coffee. I think that, in addition of being an area in which there is room for cooperation with the industry, the World Bank, certainly could also support this effort.

A third area of action is the diversification, some countries might cut back on coffee and resort to other commodities, but in some cases substitution is possible, in other cases is more difficult, because there are not many options. Many of these options may and will face the protectionists in industrial countries as is the case of orange juice, vegetable oil, sugar and meat, just to mention a few. As you know, the OECD spends one billion dollars a day subsidising agriculture, it is very difficult to find alternatives when we face such a barrier. Adding value is perhaps one of the most important avenues for the future, specialty coffees, as many countries are already doing, to export roasted coffees, soluble coffees.

But in this area some curious developments are taking place. In recent years consumer countries without having planted a single coffee tree, have become coffee exporters. Last year the United States imported 24 million bags of coffee and they re-exported 10 percent of it, half of these roasted and soluble coffees. The European Union imported 46 million bags and re-exported 13 million bags, almost 30 percent. It is true that there may be some statistical misleading figures from this, but a substantial part of that, is roasted and soluble coffees. In the seventies, the USA imposed non-tariff barriers to the import of soluble coffee, and the Europeans raised 9 percent tariff to the import of soluble coffees. This means that industrial countries not always practice what they preach, and they are doing import substitution. They created barriers to protect their industry which now supply not only the domestic market but moreover it exports.

The World Bank and the IMF during the seventies, during the eighties gave us the advice that import substitution is not a good thing and most of our countries tend to agree with that, because you know countries might perhaps reached their limit. But what is difficult to understand is why this good advice is not followed everywhere. The World Bank has also a very good role to play, and important role to play. It received a crucial task from the international community which is to reduce poverty, but I have to say that results up to now are disappointing. Certainly they are in the area of commodities one of the main important sources for revenue for poor countries. As I mentioned, they induced the dismantling of coffee boards, which to a certain extent we agreed, but without having put anything in their place, and to some countries the present situation is worst than used to be before. They have not been able until now to design instruments which are feasible for smaller countries to deal with the futures markets. They certainly have a role in market diversification and

aggregation of value which would be perhaps a more valuable contribution than promoting the expansion of coffee at a time in which we already have an overcapacity.

Consumers too have an important role to play. If they are to pay a price which might be higher than it might seem reasonable, is certainly encouraging to know that the price that consumers pay might contribute to the improvement of the environmental and social conditions of production in poor countries. Fair trade deserves to be expanded. But of course, the responsibilities to find the solutions to the present problem are and should be in the hands of producing countries themselves. But what I am stressing is that in some cases their possibilities are limited. The persistence or even the deterioration of the present situation should not be in the interest of anyone and cooperation is the only way out. We are not talking about or not talking against the market, but the only point is that we would like to have equal opportunities in this market to the access of our products to financing our produce. The ACPC has already invited the trading industry and I reiterate now this invitation to work together in areas of common interest like quality and promotion. I will be very happy to have a positive response to our invitation. We will approach governments and will talk again and again about trade. We will discuss with the World Bank their role, there will be no policy which can be effective in reducing poverty without tackling in a serious way the problem of commodity prices.

I hope this conference, the first World Coffee Conference, with such an impressive audience might be a turning point and might be the start of a new time of closer cooperation in the coffee markets. The time in which we will look not into the past but to the new realities and opportunities of the future in which we will tackle in a realistic way the real issues instead of the surface and temporary remedies.

As those who have the opportunity to say in a recent article on coffee one of the best ways to fight poverty is to provide workers and farmers in developing countries with an opportunity to sell their products in consumer markets to the benefit of both producers and consumers. The best response to the critics of globalisation is to show that a cooperative effort can lead to more balanced opportunities for producers in poor countries and to greater solidarity in a global world. If we cannot at least show this anti-globalisation protesters might have a point after all.

Thank you very much.