EQUITABLE TRADING AND COFFEE – IMPACT IN DEVELOPING COUNTRIES

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OVER VIEW

Coffee production is the mainstay of 100 million people world wide, the majority of who are found in the poorest countries of the world. Therefore, addressing the issue of equitable trading from lessons learnt in the past and considering the present and the future situations, throws a big challenge to all us at this round table.

As a coffee grower from Uganda which is one of the list developed countries of the world our experiences and lessons learnt in the area of equitable trade simply tell us that the notion 'Equitable Trade' in the coffee sector remains a challenge. For example Uganda which is the origin of Robusta coffee producing the best robustas in the world has 90% of its population living in the rural areas. Out of these, 36% live below the poverty line. The crisis facing the coffee industry has been symptomised by massive over production, collapsing prices, deteriorating coffee quality, disease and above all the growing inequality in the coffee value-chain.

Ten years ago, developing countries captured 30% of the value of the coffee market compared to only 10% of what they capture today. For example, in Uganda, coffee was contributed on average 60% of foreign exchange earnings and did so until in the year 2002 when its contribution fell to a mere 25%. This rapid fall, brought about social and economic imbalances in more than 3,000,000 smallholder Ugandan coffee farmers affecting their daily livelihoods. For many of these coffee farmers, coffee meant not only money in their pockets but it also translated into ability to afford education, health care, food security and improved household standards of living.

Globally the trend has been the same and this calls for concerted efforts by the coffee industry participants to seek for mutual redress of the problems that are making coffee trade inequitable. I am therefore, very happy to see that there is already global evaluation of equitable trade on coffee with a farmer representation. The efforts and encouragement of equitable agricultural trade by the International Federation of Agricultural Producers (IFAP) that brings together 100 national farmers' organizations from 71 countries representing 500 million farming families is highly commendable and encouraging to the growers like me and many others across the world who is dedicated to coffee production.

With all that in mind, what do we exactly mean by ‘‘Equitable trade’’ so that we can comprehensively understand it and use it as a tool for a win-win for all. I want to equate equitable trade to sustainable trade and borrow the definition of sustainability as the UN commission on Environment and Development defined it as:

Sustainability is defined as ‘‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Now that we have the analogical understanding of equitable trade in my own opinion, can we say that we are trading equitably? Where are the lope holes and how best can we address those lope holes to achieve the intended objective of equitable trading?

From a macro (National) to a micro (farmer level) perspective I think you will all agree with me that there no such a thing as equitable trade in coffee because the mathematic equation does not balance along the coffee value chain. The effect of such unbalanced equation in the coffee trade creates serious negative impact on the developing countries and the least developing countries suffer even more.

WHAT IS THE IMPACT ON DEVELOPING COUNTRIES

Commodity Trade Liberalization and Globalization

Liberalization and Globalization bring both benefits and demerits to an integrated community. However, it has been over simplified to mean equal opportunity for all without putting into consideration the different origins’ capacities and levels of development. Therefore, Commodity trade liberalization and globalization which were perceived to provide a fair play environment has not provided a level playing field for us all along the commodity chain.

At national (Macro) Level:

For example, coffee importers (multinationals from the developed countries borrow money from their home countries at 3% interest rate with hedging instruments. These multinationals then come to Uganda and compete with local traders who borrow money at 27% interest rate. Slowly by slowly, indigenous coffee exporters are being thrown out of business because they cannot simply compete favorably.

In the case of Uganda, coffee foreign exchange earnings continued to decline to 22% in 2003. I must however, hastily add that liberalization brings in competition and this provides increased farmer' earnings especially during good period when coffee prices are good. But lessons learnt tell us that we need mechanisms to manage liberalization and globalization sustainable.

Price Volatility

The continued decline in coffee prices has had very serious negative effects at both national and farmer level.

At the national level, developing countries are experiencing inflation, failure for Balance of Payments, and increased political and food insecurity which has become characteristic of coffee producing countries.

At the farmer level, price volatility has affected livelihoods of the farmers to the extent that they no longer have reliable source income and purchasing power. Coffee farmers' incomes have continued to decline to levels hitherto unknown where farmers can no longer cover their production costs and sustain their livelihoods. The overall negative effect is food insecurity, lack of health care and education leading to economic and social disorder in the various coffee households.

Coffee tariffs creating trade imbalance.

In its book, ''Rigged Rules and Double Standards,'' OXFAM shows the imbalance that exists in trade between the developed and developing countries. The prohibitive tariffs that are imposed on manufactured products as compared to the non-manufactured products from developing countries are a clear manifestation that policy makers in the developed world are contributing to escalation of poverty in the producing countries.

Coffee in green form has no money. Producing countries have continued to export green coffee as their final product. In addition, the primary producers and the final consumers of coffee have been put at the mercy of roasters who take a lion's share of almost 80% of the total income accruing out of a kilogram of instant coffee. Is this equitable trade?

Lack of Information Dissemination to all stakeholders.

With equitable trade, one would expect information to reach all the coffee stakeholders along the value chain. Surprisingly, there is a very big information gap that exists between farmers and the market. Most producers in developing countries do not know what the market wants and even if farmers have the best quality of coffee, they are not rewarded accordingly. Equally, consumers in the developed world also do not know that they are buying coffee abnormally expensive and this explains why the equitable trade being talked about is just perceived but not a reality.

Lack of Strong farmer Organizations

Producer organizations, especially in the developing world had been rendered weak due to government interference and lack of financial strength to deliver sustainable services to their members. When the wind of liberalization came especially in the developing countries, the coffee industry faced many challenges. Many governments had controlled and regulated the coffee industry. With the coming of liberalization many coffee producers especially in Africa found themselves totally unprepared to take over the role played by government . The shock waves of liberalization had a very devastating effect especially among small-scale coffee farmer communities. It is only today that coffee growers have come to realize the need for strong farmer organizations, owned and sustained by themselves in order to articulate and dialogue on policy and advocacy issues that affect their coffee growing as a business.

Non tariff barriers-certification costs

Coffee producing communities especially in Africa have found it difficult and prohibitive to certify their specialty or sustainable coffees that attract very good prices in the niche markets because of high certification costs by the certifying bodies in developed countries. The absence of locally accredited firms to carry out such certification of sustainable coffees aggravates the situation even further. For example most of Uganda's robusta coffee is produced organically by default but it is still difficult to certify it as organic and thus missing out on premium prices.

Absence of input credit for farmers

Most farming communities in the developing countries do not yet have access to input-credit. Commercial Banks and other financial institutions still view farming in general and coffee growing in particular as a risky business. Therefore, farmers do not have access to any form of credit and this is a major hindrance to coffee quality improvement and sustainability. In addition, interest rates are very high because of the perceived risk by the financial institutions. This does not augur well with equitable trade.

Enforcement of Code of Conduct, Statutory Rules and Regulations

Increased consumer tastes and preferences demanded by the coffee buyers call for establishment and enforcement of coffee code of conduct, statutory regulations. However, lack of funds and logistical support have made it difficult for producing countries to develop and implement appropriate codes of conduct for sustainable coffee production. Coffee producers need to be reminded to abide by the virtues of the code of conduct established by themselves for their common good. Their efforts in abiding by the code of conduct should be accompanied with reward for good prices and continued market availability. I am happy to note that the international community on the Common Code for Coffee Communities (CCCC) has introduced itself to Uganda and we are going to lay strategies on how to ensure sustainability in the coffee sector.

WHICH WAY THEN FOR EQUITABLE TRADE?

In view of the current crisis in coffee industry, equitable trade still remains a complex reality and calls for smart dialogue and deliberate socio-economic responsibility by all the stakeholders including governments and development partners. The challenges of equitable trade must be looked at with a multidimensional approach by focusing on the following issues:

Removing any trade barriers to market penetration

There should be a level playing field for producing countries to export manufactured products to the developed countries. OXFAM in conjunction with the producer countries are calling for fair-trade. This initiative is echoed by millions of farmers across the globe who believe that they are not getting a fair deal for their effort. Governments of developed countries should revisit their tax regimes and allow developing countries to export their manufactured products if equitable trade is to be achieved to the benefit of all the sector players in the coffee value-chain.

Create and strengthen SMART Partnerships and Dialogue

There is need for Strategic SMART Partnership and dialogue along the entire commodity chain in the areas of marketing, research, extension services, farmer credit and input supply delivery systems etc. The essence of SMART partnership and dialogue should be a win-win situation. This partnership should be a private initiative and needs to be facilitated by ICO from time to time. This will help to create equitable trade for farmers to improve their household incomes and livelihoods. Diversification into certified sustainable coffees such as Fair trade, Organic, Shade/Bird-friendly should be reconsidered in terms of costs and supported by the roasters, governments and development partners other than leaving it to farmers.

Design and/or support implementation of appropriate Codes of Conduct

Consumers worldwide are becoming more and more conscious and specific about what they want to eat and drink. They also want to know where the commodities are grown and by who for traceability and to ensure food safety. We the coffee growers have began to prepare ourselves for such consumer demands and respond appropriately in a well organized manner. This, therefore, calls for the multinational companies in the coffee chain to continue supporting and guiding producers to jointly develop and put into practice appropriate codes of conduct that are recognized by specific consumer markets. There is need for global effort by the multinational companies to reinvest some of their enormous to support these initiatives sustainably. In a small way, we in Uganda under our coffee farmer umbrella organization, NUCAFE (National Union of Coffee Agribusinesses and Farm enterprises) have already taken up this challenge and we need the support of every one to enhance this initiative.

Paying a decent price

Coffee producers worldwide have continued to show concern and demand for the market to pay a decent price for quality coffees. Coffee growers are becoming increasingly aware of the unfair gains that lead to the poverty in the cup. Those growers who walk an extra mile and toil to meet the challenges and demands of the consumer market should be adequately rewarded. The huge revenue gap that exists between producers and consumers estimated at about US$65bn should be proportionately distributed to support equitable coffee trade initiatives. Without addressing this serious problem, I see many coffee growers abandoning their plantations in frustration. This may be very disastrous for the coffee industry as a whole and calls for a strategic coffee fraternity vision to avert the situation. The time to act is now.

Eliminate inferior coffee grades

Unfair trade practices in inferior coffee grades by some unscrupulous traders causes a big threat to the coffee industry as good quality coffees are some times mixed with inferior quality coffees to maximize on volumes and profits. The scheme developed by ICO to eliminate trade of inferior coffees is highly commendable and needs the support of both producer and consumer countries.

Support farmers' organizations to build own capacity

The future belongs to the organized. Coffee Farmers' organizations are the engines of growth and sustainability in coffee production. They are vehicles and conduits for information dissemination. Working together, they will achieve the economies of scale necessary to market their own coffee in a competitive and cost effective manner, thus tapping into price incentives available for superior quality coffees. Through their own organizations, they will address issues of quality, code of conduct, price discovery, appellation, policy and advocacy. This may require the development of deliberate pilot projects in partnerships with roasters, certifying organization and development partners.

Knowledge and information is power

The world is already a global village and the power of information and communication technology is becoming increasingly necessary to enhance equitable trade and survival. The coffee sector players should at all times be knowledgeable about issues affecting them, whether good or bad. This, therefore, calls for creating and developing information systems in order to keep abreast with challenges and opportunities in the coffee industry.

Thank you very much for listening to me.

GOD BLESS THE COFFEE INDUSTRY.