

THE WORLD COFFEE CRISIS

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The majority of the world's population depends for its employment and welfare on the production and export of commodities, that is on products that have not undergone industrial processing. It stands to reason, therefore, that the strengthening of these sectors is vital for the economic and social development of commodity-producing countries. World leaders meeting at the Millennium Summit organised by the United Nations undertook to adopt measures designed to reduce world poverty by 50 percent by the year 2015. It is obvious that this target cannot be achieved unless appropriate policies are applied to regulate the growth of these commodity sectors, of which coffee is one of the most significant.

For many years coffee has been the most valuable commodity in international trade after petroleum. The coffee sector has had a profound influence on the political, economic and social structure of a large number of countries and is at the same time one of the world's most popular beverages.

This Conference is part of the International Coffee Agreement 2001. The main purpose of this meeting is to consider major trends and challenges in the world coffee economy with the participation of representatives and leaders from the public, private and academic sectors most familiar with coffee. This will not be a routine event: it is a summit meeting which will be held only every three or four years. I would like to thank each and every one of you for your presence at this first major conference. We have over 400 participants representing more than 65 countries.

We are living through one of the most dramatic moments in the history of coffee over the last 100 years. Export prices in constant US dollars are the lowest since 1900 and are below those recorded during the Great Depression of the 1930s, which were regarded at the time as disastrous for developing countries. The coffee sector continues to be vital for 50 producing countries in Africa, Asia and Latin America from the viewpoint of the creation of employment, the balance of payments, economic growth, public finance, income distribution and regional development. It is no exaggeration to say that the coffee sector has been a powerful motor of economic and social development in these countries. In the case of Brazil, Central America, Mexico and Colombia,

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countries with whose economies I am most familiar, coffee was responsible for creating urban centres, transport infrastructures, land use, job opportunities and the expansion both of the industrial sector and the financial system.

More than 20 million coffee farming families are struggling to survive in various continents in these difficult circumstances; many have become significantly poorer and have to live on less than a dollar a day.

Prices to the final consumer have fallen slightly but to a far lesser extent than the fall in export prices. In the 1980s, when the economic clauses of the International Coffee Agreement were in effect, the final consumer spent around US\$30 billion annually on coffee; of this total, exporting countries took US\$9-10 billion annually, representing around 30-33 percent. The latest estimates indicate that final consumption now accounts for around US\$55 billion annually and producing countries receive less than US\$8 billion, representing only some 15 percent. This imbalance between the behaviour of export and retail prices deserves in-depth analysis.

The problem of the deterioration in real export prices has become even more complicated by the increase in price volatility levels. International coffee prices have shown a fluctuation of more 50 percent annually in recent years whereas during periods when the market was regulated prices fluctuated between 10-15 percent around their medium-term trend. These high levels of price instability have a very negative effect on the development process, as has been confirmed by a number of studies carried out by the World Bank.

The situation of the coffee sector is so critical that 12 Heads of State from Latin America and the Caribbean have issued a declaration on the crisis addressed to various leaders of the international community. We have been asked to circulate the text of this declaration to those attending this Conference. I would ask you to read this text carefully and to bear it in mind during the course of our deliberations.

On the consumer front, we can say that coffee continues to be one of the world's most widely consumed beverages. More than a thousand million people in the world habitually drink coffee. This is a significant achievement but it represents only 20 percent of the world's population. Our greatest challenge should be to reach 35-40 percent of the planet's population over the next 10 to 15 years. Roasters have invested substantial sums in new products and new technologies and efforts are being made to target youth. The legendary Mr. Bernard Rothfos of Hamburg claimed that coffee is "the intellectual fuel of civilization" and he was quite right. Furthermore, coffee is a beverage with many benefits to the human organism, including greater mental concentration, activation of memory and effective anti-depressant qualities, as suggested by recent scientific research, including studies carried out by Vanderbilt and Harvard Universities.

This first major Summit should help us to understand the complex situation facing the world coffee economy and should throw light on its current dynamics and possible evolution. To achieve this aim, we consider it useful to analyse the subject from five different perspectives:

1. Global trends
2. The coffee sector as a motor of development
3. Production and consumption trends
4. The role of institutions
5. The impact of science and technology

Permit me to make a brief comment on each of these sessions. Firstly, we will need to consider issues associated with global trends. The Internet revolution and globalization are powerful forces that are transforming activities throughout the world. We have invited speakers drawn from the highest level to help us to understand these phenomena, which no sector can afford to ignore. Some analysts have expressed the fear that these forces can lead to the marginalization of a large group of developing countries. How to prevent this scenario will be one of the key issues for consideration. Secondly, we will consider the role played by the commodity sector, and the coffee sector in particular, as a motor of development in various countries in Africa, Asia and Latin America. The session will bring together speakers with wide knowledge of the situation of the coffee sector in various continents. This will be followed by consideration of the major trends in coffee supply and demand, with the participation of a very distinguished panel of speakers. The fourth session will be devoted to a discussion of the crucial role played by institutions in the performance of the coffee sector. A distinguished panel of academics from some of the world's most prestigious universities will be with us during this session. The last session will consider issues related to coffee and health and to the technology available for combating pests and diseases, raising the productivity of small farmers and promoting sustainable development. Speakers at this session will also be among those most qualified to deal with these issues.

In addition to these issues, we have invited the Chairman of the London Futures market and the President of Starbucks to address us on two particularly important issues: the role of commodity exchanges in price formation and the specialty coffee revolution. I would like to call attention to the presence of a number of distinguished political leaders, businessmen and academics, among them H.E. Gnassingbé Eyadema, President of Togo, who will speak on behalf of a number of African countries. I would also like express my appreciation to H.E. Marco Antonio de Oliveira Maciel, Vice-President of the Republic of Brazil, who kindly accepted our invitation to make a speech at tomorrow's reception.

A number of ways of overcoming the crisis have been suggested; among these I would like to mention the following: (a) Adopting strict quality standards at international level to prevent inferior quality coffee from entering the market. (b) Promoting and adopting responsible production policies and seeking to ensure that the international community does not grant credits which will increase the area under coffee. (c) Providing financing to enable producers to regulate their marketing processes and the accumulation of stocks. (d) Intensifying promotion efforts to increase consumption. (e) Supporting diversification efforts in producing countries by opening up markets in high-income countries; it is hoped that the next WTO Round will provide special benefits for developing countries. (f) Strengthening programmes for human capital formation, increased productive efficiency and sustainable development in coffee growing countries, with the support of multilateral credit agencies. (g) Increasing local processing in countries of origin through strategic alliances with multinational companies. (h) Supporting the use of futures markets, as proposed by Mr. James Wolfensohn, President of the World Bank.

I hope that some of these ideas will be discussed during the course of this conference. If we want to ensure a stable supply of high quality coffee at remunerative prices to producers and acceptable prices to consumers, the international community must support measures of this nature.

In the last 20 years, coffee growing countries have made considerable investments in technology and productivity. The coffee sector has provided a practical schooling for training businessmen and actively participating citizens in many fields of agriculture and industry. Many countries have managed to achieve modern and efficient coffee growing sectors which provide fair conditions and respect the environment. Coffee has been a motor for social and rural development. The crisis in the sector produces social imbalances, accelerated migration to urban areas and political instability. The international community must act to strengthen all the links in the coffee producing chain, from grower to final consumer. The International Coffee Agreement 2001 provides a mechanism for such action and I would urge all Governments to complete the procedures before 25 September 2001 to facilitate cooperation by the international community on these issues.

Many of you have travelled hundreds of miles to be with us. On behalf of the international coffee community I wish to thank you for your presence. With the support of all of you I am sure that the Conference will achieve its objectives.

Finally, I wish to thank to all the sponsors of this Conference, including the Neumann Gruppe, Cafes Do Brasil, Banco Aleman Platina, Tchibo, Nestlé, Fococafé and Café de Colombia. I also wish to highlight the efficient collaboration of F.O. Licht and the ICO in the organisation of this important event.