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ICO / World Bank round-table

Mr. Chairman
Your Excellencies
Coffee Friends,

Allow me to express my thanks to be able to take part in this truly 'high level' round-table on the coffee crisis today. My congratulations to the World Bank and the International Coffee Organisation for this initiative which we all hope will have a positive effect on our community's reflection – but more important – proactive attitudes towards solutions.

I promise that I intend to stay within our 15 min time limit but I just need to make a couple more comments on the causes of the present critical coffee situation and influencing circumstances. Only with a proper diagnosis can the attempts at therapy be helpful.

In the 1980's and early 90's we still lived in a business world of many State interventions and trading systems. We in Germany know what we are talking about. – One of these outmoded regulatory systems proved to be the ICO quota regime of the 1980's. This system – in my opinion – was the single most damaging cause at the root of the coffee glut of the 90's which lasts until today.

Inefficient production protected by export quotas, lack of innovation in green coffee for decades – to name just two facts – are typical phenomena of state protected business.

In the 90's coffee began a rejuvenation process. Just a few examples: Established players, such as Brazil and Colombia re-invented their production bases with the result of infinitely more efficient production in both countries, Brazil increasing

production twofold and Colombia almost halving acreage under coffee while maintaining its output. New countries entered with significant modern capacities and others profoundly diversified their quality standards to suit the steadily expanding markets better: Developments in producing countries what seem to have been held back for decades by state interventionism and quotas broke loose in the shortest periods of time.

What we have experienced in a most bitter way and have gotten used to call the 'coffee crisis' is actually in great measure the significant growing pains of this not altogether negative development.

Here is one more important circumstance to remember: Many Latin American currencies – including those of the two largest coffee producers in the 90's had a track record of over-valuation which has corrected itself in the more recent years. Other currencies such as the Mexican peso and some Central American units have practically been dollarised making life for the coffee communities of these countries much harder.

Moreover, recently of course subsidy systems of different specifics again somewhat distorted market reactions. This is the case in countries where the dependance of coffee is low such as Mexico, El Salvador, Colombia and Brazil. The poorer more coffee-dependent countries were unable to follow such policy of the more affluent nations.

Meanwhile coffee consumption has been a tower of strength. 1-2 % growth p.a. of global offtake – and this practically as a constant – has been an outstanding performance for any mature product, particularly when considering the ever growing number and speed of innovation of competing beverages. An enormous achievement moreover appears to me to be the trendsetting action of specialty and gourmet coffees which typically fell into this recent post ICO quota period. As a result the young consumer is coming back to our product while 10 and 15 years ago our consumer age chart was beginning to look like a funeral urn.

A less positive element in consumption has unfortunately been conspicuous in the producing countries. Excepting Brazil practically nothing has happened in this area in the last 20 years. Large potential consumption is surely waiting to be kissed awake here.

No doubt green coffee is still in this crisis. However, we must qualify this term in one more way: The problem is that agricultural productivity has not grown evenly throughout the coffee world and therefore the degree of crisis is perceived vastly different from country to country, even if we discount temporary factors such as steep currency corrections. With absolute certainty though, should prices return to the former ICO price corridor of before 1989, such level would be followed by production increases and excesses much larger than those seen in the last years.

One qualification here: I do not by any means defend cuts of production cost by the lowering of rural wages that were low in the first place. But large parts of this productivity gains have come from vastly improved business and agricultural practices awakened by the free market of the last 12 years.

Yet, we still do have a crisis – even if not across the board - but in numerous producing countries no doubt.

As to solutions: First one comment of warning. - The world coffee economy did well by discarding the old ossified systems. The present problematic therefore should definitely not tempt us to look for solutions by renewed state intervention. The market economy must prove to be more creative and resilient and more forward looking in order to reduce the likelihood that this present crisis – structural and cyclical – repeat itself in this unacceptably sharp form in the future.

Now, I do not believe that there is one single answer, one Deus ex maquina to solve this problem.

But for sure, structural changes of the last 15 years make it most unlikely that all coffee producing zones - old or new - in all producing countries will have a role to play in the coffee market of tomorrow. I recommend a simple exercise: To analyse

the accumulated inventories in consuming countries and compare their composition with the composition of import consumption. The coffee type which has more share in the consumer stocks presently than in roastings most likely has a longterm marketing problem of its production. So diversification out of coffee into other products is the single most important element to achieve a better balance for the future. And we must reflect this very consciously as this will represent an almost super natural effort for a community – so excellently represented here today – which afterall is united in its dedication to exactly this product: coffee.

I also realise that the agro-policies of North America, of the European union and of Japan make this effort of diversification difficult but we must not rest from raising this subject in the WTO and other political forums. However, very often there are local solutions of diversification and here I do believe that donor organisation – international and national - must play an even more active role at this time.

Now, the term ‘Sustainability’ promises to be one of the most abused terms or as we say in German, Un-words, of 2003. Yet - the future of our globe, economically, socially and environmentally depends on it. We must fill it with meaning. Here is an issue of our values. And to say it right off the bat: Non-Government organisations – some, not all – have been among the first and most effective movers of these ideas. The sustainable discussion is coming in force, also for coffee – even if in periods of recession or lack of consumer confidence the dynamic appears to stall. Increasingly, the housewife is taking note and asking questions, international and national food companies are reacting in more substantial ways. What we have learned though is that the sustainable issue does not substitute quality: it represents an excellent argument in addition to the qualities the consumer wants.

So there is a large market open to us with promises of a better life for the battered coffee farmer, provided he and she adapt to the new times and are helped along in this process by the relevant institutions.

In practical terms we need:

Sustainable production standards by type of coffee and type of farm structure.

Numerous efforts are underway but they are not yet coordinated.

Then we need objective verifying agencies - at acceptable cost to the farmer - which work on gradual point systems, not the black and white of today's organic coffees.

And we need a global publicity campaign about these possibilities in order to help the consumer along to make the right decisions. I am speaking of PR, not advertising.

Incidentally, the group of companies of which I am the chairman, is profoundly involved in these processes. However, we are too small, we can only be catalysers and hope that the major participants in the world coffee economy will begin to be equally convinced of this course of events.

This projection will lead to a number of positive effects:

As sustainably produced coffee becomes the industry standard, a price differentiation – call it premium or discount - will take place. Aggressively produced coffee will suffer.

Now, this green coffee requires more cooperation, its marketing is bound to be longterm, more like an industrial flow organisation allowing to respond to such novel demands of consumer and industry as traceability and food safety.

And finally: Volatility of international coffee markets will get less, the buzz word for producers but also highly welcome for the consumer world.

I do suspect though that the coffee producer of today must make a number of changes:

Agricultural and business education is the name of the game. Every assistance must be given in that direction. And the computer and internet must find access to more rural areas of coffee production.

These sound like huge demands and they are and they are not. Each one of us in this room and certainly many of my colleagues in trade and industry are able to make their direct contribution – large or small – if they wish.

What coffee would gain will be more rational decision making on the producerside. The farm community - through cooperatives, government agencies and the private trade – would understand and evaluate important longterm information and act more methodically and forward looking in its planning and investment.

In conclusion all of this would lead to better coffee products which will form the basis of growing world consumption of our commodity for the future and in the interest of all concerned. Sustainability will then be just one aggregated value.

No question in this arena there are broad functions for the future International Coffee Organisation. I believe very much in coordinating work with public international and national donors, food companies and trade and their associations, the NGO community in conjunction with the governments and private sectors of coffee producing countries.

Mr. Chairman – Thank you for your and the audience patience. I hope that I have been able to make a contribution to the work of this panel under your guidance.