

Mr Ong Siong Kai's speech at the World Coffee Conference, London on 18.5.2001

COFFEE – AN ASIAN PERSPECTIVE

It is with some trepidation that I attempt to say my piece amidst all the recent cacophony and anguish of what is perceived as a major management failure of the coffee world. In spite of all the collective wisdom, experience, systems, transparency and indeed, money-power, we are no nearer to a manageable balance of supply and demand in our beloved coffee business. We may never see that balance.

Perhaps, tracing my own involvement, in my little coffee corner, located at that almost invisible red dot, Singapore, may give you an understanding of my own perceptions of where the coffee market will go.

I started in my father's trading company, and was thrown in the deep end of the business some 36 years ago. He was a wonderful trader, loved by many in our little enclave, amidst Indian merchants, Chinese importers who were called "Kou Puay" or 98, presumably because they could take a commission of 2% for the financing, storage and other services they did for Indonesian shippers at that time. Also not forgetting the redoubtable Colonial English Trading Houses, the ingenious and crafty Dutch traders, Japanese Sagoshosha and many others, who crowded the successful trading post turned a mega entreport powerhouse, envisioned by the much-admired Sir Stamford Raffles.

Business life was somewhat easier then. Quickly, we got into the era of controls and quotas to seek that equilibrium and fairness to a multitude of origin suppliers, mainly from, what was popularly known as the third world countries, seeking decent prices from the Western (including Japan) world. It was seemingly successfully managed for a time, despite hiccups, and cries of more quotas from a few countries with more ambitious growth aspirations.

Meanwhile, the Futures market of London and New York grew in prominence, expressly as a price-discovery and hedging mechanism and speculative trade. The specs, funds and others were encouraged to join in the fun! Today virtually, all Robusta related trade need to be "price to be fixed" against the London Robusta futures if one wishes to be involved. I understand that Arabica origin suppliers are attempting to break away from linkage to the "C", to break the strangle hold.

Are we then going back to the good old days of pure 'physical' speculative trading? What is the answer? P.T.B.F. hedged trade? Pure speculation, no hedges? I guess its anybody's guess.

In view of the conundrum we were facing, we altered our strategy to value add our trading activity as many other Trading Houses have been and are doing. We acquired a decaffeination plant to augment our usefulness to the coffee industry - the only coffee decaffeination plant in Asia and Australasia. Others are steaming Robustas, cleaning up mediocre coffees and so on.

We have developed a coffee speciality cafe and restaurants called “Coffee Club” and “Coffee Club Xpress”, infinitesimal in number compared to the likes of Starbucks, in seeking diversification and extension to our basic trading.

Where will the coffee trade bring us? We have seen many small trading houses go, as bigger companies with enormous financial and infrastructural strength muscle in. But we have also seen many mega coffee trading companies come and go or be restructured. It seems we are no nearer to that balance we seek. As I have said in the beginning, perhaps we will never find that balance.

I come from a region of enormous production and growth of Robustas. What was a panacea to economic growth for the Vietnamese and others around, has now become a plague, as farmers struggle even to harvest their bountiful crop, unable to afford workers who are not members of the family in today’s low, low, prices. Wisely, the Vietnamese Coffee Association has recommended not to increase Robusta production but allow growth of their Arabica crop. Wisely? Is not Brazil and others already producing more than we need in Arabicas? Vietnam, within a decade became the second largest coffee producer and the largest Robusta producer in the world. Would she do the same thing to the Arabica? Maybe not. But then what is the answer? Other crops? That’s already being done. But they are also facing low prices, for example pepper farming is stymied by over production too.

One of the things I feel that need to be re-considered and thought through is the way we trade most of our coffees against the ‘Board’, whether against the ‘C’ futures or the London Robusta futures. How many times have the trade or exporters run foul of it? I don’t know the answers. Perhaps we should attempt to de-link the price of coffee from the Futures price? Perhaps coffee buyers ought to take a ‘friendlier’ approach should the futures market react drastically from the norm?

All is not gloom and doom. I am sure there are many success stories and ‘Starbucks’ is one of them. As a result of their success, coffee drinking in our part of the world has become more fashionable. Gourmet-type coffees are in better demand than ever before. Even our local coffee shops, known as Kopi-Tiam in Singapore, Dai Pai Dong in Hong Kong and so on, are upgrading their coffee quality and serving lattes and cappuccinos.

So, Ladies and Gentlemen, there is hope yet for the best beverage in the world!