Statement by H.E. Juan Manuel Santos Calderón,
Minister of Finance and Public Credit, Republic of Colombia at the
World Coffee Conference, London, 18 May 2001

Coffee, Commodities and Economic Development

It is a great honour and pleasure for me to accept the kind invitation to participate in this World Coffee Conference, a new body meeting for the first time within the framework of the International Coffee Organization, where for 10 years I had the honour to represent Colombia as Permanent Representative. This was during the 1970s when dependence on commodities prevailed in developing countries and throughout the tropical fringe, two or three products, with coffee in the lead, were the mainstay of their economies and external trade.

This situation remains substantially unchanged but the difference is that in those days, unlike today, the industrialized countries showed greater political sensitivity in regard to the role of such products in the development of these incipient economies and their social stability. Commodity agreements were the expression of a political attitude that leaned towards the achievement of remunerative prices for producers in equitable conditions for consumers within a framework of equal rights and obligations.

There have been a large number of analyses and studies on the impact and validity of such agreements, and they have had as many defenders as detractors. I have no intention of reopening the debate on their merits or defects but I would certainly like to record the paradox that their collapse was caused by major industrialized countries which preached the virtues of the free market while reinforcing mechanisms to restrict imports of agricultural products into their countries in order to protect their own heavily-subsidised domestic production. It is worth mentioning that subsidies for agricultural activities in the 25 OECD countries currently total US$361 billion annually whereas coffee export earnings totalled only US$8.6 billion in coffee year 2000 (2.4 percent of the total subsidies granted by industrialized countries). In addition, these industrialized countries have consolidated tariffs escalation that clearly discourages value-added processing, preventing competition with their own industries and limiting the role of many developing countries to that of mere suppliers of raw materials.

Before delving deeper into the problem of commodity price instability, particularly in the case of coffee, and exploring the need for new political formulas designed to facilitate the sound management of the coffee market, I would like to refer briefly to the implications of the growing phenomenon of globalization that dominates the economic environment in which we operate.

Globalization

The last 10 years have been the period of the greatest liberalization, economic opening and technical advance in the twentieth century. This has led to growing interdependence and has created new opportunities and expectations. Among these, a belief that economic growth and world development would be accelerated and that the new opportunities would be more widely shared. In practice, however, results have been very uneven and many countries, most of them in the developing category, have failed to share in these benefits.

This is largely attributable to structural deficiencies and the lack of macroeconomic stability and solid institutions capable of guaranteeing governability and the rule of law, as well as inadequate investments in education and the formation of human capital. These factors have led not only to limited participation in the benefits obtainable from the new order in international trade but to increased marginalization for the countries concerned.

Over the last decade we have also witnessed various financial crises, the most serious being the 1997 Asian crisis, which demonstrated that even developing countries that seemed to be experiencing phenomenal growth were still vulnerable and that there are no appropriate international mechanisms to contain the crisis and prevent it from having a knock-on effect. These events have provoked a rethinking of the concept and strategies of trade liberalization and, to a large extent, have brought about a change in political discourse, which has become more cautious and acquired a protectionist edge.

The other major obstacle to economic and social development is the heavy debt burden of Third World countries, a problem that has been aggravated by the financial difficulties I have mentioned. Resources that should have been destined to modernization of the physical and social infrastructure and improvement of competitive conditions have ended up being used to reduce the heavy burden of servicing the debt. Debt repayment conditions must be reconsidered, otherwise there will be continued stagnation and, in many cases, recession.

Moreover, the present international financial structure limits economic policy actions in emerging countries. External factors can largely explain the economic cycle in these countries, reflected in trade upheavals, the size of available capital flows, the price of debt (spreads) and pronounced fluctuations in economic activity.

Under normal conditions in developed countries, this scenario would lead to the application of an anti-cyclical macroeconomic policy. However, as a result of failures in the operation of the international capital markets, which would see such policies as giving the wrong signals in terms of macroeconomic discipline, this is not possible in most of the so-called emerging markets.

Poverty is another problem that has not been solved. There has been little progress in the struggle against this scourge. In 1990, 36 percent of the Latin American population lived below the poverty line. The latest estimates indicate that the situation has not changed. Economic growth has been slower than in Asian countries: per capita income in Latin America has grown at a cumulative annual rate of only 1.3 percent whereas in various countries in Asia it has grown by over 5 percent annually. This difference is attributable to a number of factors, including low rates of saving and investment, slow growth in productivity, rigid labour markets and inadequate education systems.

The failure of the attempt by the World Trade Organization to launch a new round of multilateral trade negotiations in Seattle in December 1999 and the violent public protests that have dogged summit meetings of international organisations and world leaders are a clear indication of a widespread feeling that calls for a new approach designed to give globalization a more human face and help to reduce inequalities in growth and development, paying greater attention to social and environmental problems.

What should be done is to give to the reality of globalization the character of an instrument for development, seeking a better balance between rich and poor countries. This could be achieved by giving the products of developing countries better conditions of access to markets in industrialized countries, with greater transfer of technology and financial resources, as well as greater technical cooperation and investments of a permanent nature.

A glance at current conditions of trade shows that, while developing countries are being required and even forced to open their frontiers to the products of industrialized countries, the latter operate a protectionist network that includes anti-dumping measures, compensation rights and tariff barriers, not to mention the heavy subsidies to which I referred earlier. In addition, implementation of trade liberalization agreements has been slow in relation to products and sectors of interest to developing countries, as in the case of agriculture or textiles and ready-made clothing.

Cases like meat and fruit, basic products for our countries, are penalized by customs duties of over 100 percent. The range of restrictions does not end there. Of the 1,370 customs tariffs on agricultural imports, around 90 percent are applied by developed countries.

Recent data published by international organizations show that costs to developing countries in terms of income lost because of trade restrictions on their exports total more than US$100,000 million annually.

In these circumstances, only if we were able to establish an agenda for multilateral negotiations based on an expression of the political will of developed countries to make concessions and open up their markets could a new impulse be given to trade liberalization.

Without an attitude of this nature, antagonism and polarization will be accentuated and the possibilities of finding new sources of investment, employment and trade will fade. What is required, then, is a capacity for compromise, so that once the interests and needs of developing countries have been identified, negotiations clearly aimed at improving their opportunities in world trade can begin.

Instability, Terms of Trade and Development

Price instability has been the dominant feature of the commodity market, almost always with a marked downward trend, countered only by specific market activities or climatic accidents. It is well-established that there is an inverse relation between commodity price fluctuations and economic development since volatility creates uncertainty, affecting investment and the creation of employment. This is why there is an increasingly urgent need for the use of risk management or insurance instruments to save farmers from ruin.

Coffee is a well-known case in which the volatility of export prices has been particularly marked, especially when the economic clauses of the International Coffee Agreement were not in operation. As an illustration it is worth noting that during the 1980s when the quota mechanism was in force, price fluctuations were of the order of 10 to 12 percent. In the 1990s, in the absence of any type of control, volatility has in some cases risen to more than 50 percent, overtaking the pronounced fluctuations of the technical shares index on the New York Stock Exchange (NASDAQ) which has reached an annual level of 35 percent.

The alternative traditionally proposed to combat the fragile state of commodities like coffee or cocoa is diversification, both vertical and horizontal. Both forms would require considerable foreign investments and the support of multilateral credit agencies to permit added-value processing of the product or generation of other sources of investment. But what is really needed for the effective implementation of this option, which requires responsibility on the part of commodity producing countries, is the adoption of production policies aimed at recovering a relative balance between supply and demand in order to obtain better prices.

There is no point in labouring under the illusion that larger volumes of exports will compensate for lower prices. Experience has shown that this exercise can be economically ruinous. Given the current state of coffee variables it is obvious that the crisis is of a structural nature and unless substantial changes are made to restore a balance between supply and demand, countries exporting coffee and other commodities in a similar situation will be condemned to earning very low incomes, which in many cases fail to cover production costs.

It is alarming to note how much wider the differences are becoming and how much the coffee grower's share in the trade is deteriorating. Ten years ago, the value of the world coffee trade was around US$30 billion a year, of which US$12 billion went to producers. Today, the value has risen to US$55 billion a year but producers are receiving only US$8 billion.

Thus, marginalization is not only a matter of limited access to markets but is more obviously reflected in the unequal distribution of profits and trade opportunities. This serves to highlight the fact that the quota agreement on coffee performed a basic function and was an instrument of the highest validity which, by following market trends, facilitated the development of sustainable coffee growing in more equitable conditions.

The seriousness of the situation requires decisive and concrete action to ensure fairer terms that will permit the preservation of this essential source of income and a livelihood for millions of coffee growers. Those responsible for coffee, both in exporting and importing countries, cannot remain indifferent, limiting themselves to expressing concern at the continuing deterioration of the market. We need to take action and to think of new schemes and corrective instruments to give real meaning to the reiterated offers of cooperation and support made in international forums.

Producing countries have the enormous responsibility of coordinating appropriate disciplines and controls. A return to quotas? Increased and more widespread retention? Eradication of coffee farms? All these measures should be considered without preconception or prejudice, the basic aim being to rationalize supply and make the coffee industry a profitable activity for producers and not only for processors and distributors in the industrialized countries.

The initiative currently being pursued by coffee producing countries, designed to improve quality and establish minimum standards for consumption, is a valid approach which will improve the product supplied to the market and facilitate the promotion and expansion of consumption. Colombia was a precursor in ensuring the excellence of its coffee and the position it has managed to achieve in the market clearly reflects this quality-orientated policy. This is why, in supporting the proposed scheme, I would like to invite the coffee authorities and coffee industry representatives to give it their support and ensure its widespread application.

Final considerations

The crisis currently afflicting the coffee sector and millions of farmers in the world's poorest countries is very serious indeed and there are already signs of economic and social disturbance in areas dependent on coffee. The international community cannot remain indifferent and there is a greater need than ever to unite political wills and channel a cooperation process that seeks to find political solutions. This Conference, which brings together leading personalities from governments, international agencies, the coffee industry and academia, is called upon to plant the seeds of a constructive and imaginative dialogue that will pave the way for a "New Coffee Era". This was formally requested by the Heads of State of Latin American coffee growing countries at the recent Summit of the Americas held in Quebec, Canada. It is a request that I wish to transmit to this forum with my full support.

Coffee and our agricultural products in general could have a great future but there are many challenges and pitfalls to overcome. We must carry on an unremitting struggle against rural poverty and this means that we must modernize, become more competitive and develop new ideas to facilitate the mobilization of funds, technological development and the strengthening of institutions. Improvement of the living conditions and well-being of our farmers will make it possible to preserve our agricultural vocation and reinforce the sector as an essential factor in economic growth and a guarantee of social order.

Thank you.
London, 18 May 2001.