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Coffee crisis and African prospects

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Mister Chairman,
Honourable Delegates,
Ladies and Gentlemen,

I wish to express my profound thanks to the Brazilian Government for having done me the honour of inviting me to this important World Coffee Conference. I consider it a great privilege to have been given the opportunity to participate in the Discussion Panel on the lessons emerging from the coffee crisis and I regard it as an honour for my country, Côte d'Ivoire.

I would like to thank and congratulate all the national organizations of the coffee producing and consuming countries that have contributed to the holding of this conference.

Lessons Emerging from the Coffee Crisis: this is the theme we have been asked to discuss. I would like to offer you, in summary form, my observations, comments and suggestions on this matter.

A. BASIS OF THE CRISIS

A study of historical data indicates that the crisis arising from low price levels is a recurrent phenomenon in the coffee market. Supply and demand fundamentals are determining factors in price formation and price movements although exogenous elements can sometimes profoundly alter their impact. Price levels are, therefore, dependent on the dynamics of the balance between supply and demand. In this case, the crisis was created by a situation in which supply consistently exceeded demand over a period of around five years.

The situation began to improve only towards the end of 2004. In fact, world production in crop year 2004/05 was around 113 million bags while world consumption was estimated at 114.4 million bags. Taking into account a production volume of 104.7 million bags in crop year 2003/04, it was clear that there would be a cumulative shortfall which would bring pressure on stocks. It is against this background that we must consider the improvement in the market situation since the end of 2004. The situation can be reversed, however, as soon as crops become abundant again and supply exceeds demand. It should be borne in mind that in the absence of any regulatory mechanisms, exporting countries must accommodate themselves to these ups and downs in supply and demand.

For over five years, the crisis attributable to low world price levels – the lowest ever recorded in the history of the coffee market – undermined the economic foundations of coffee exporting countries. The crisis reached alarming proportions in 2001 when the annual average of the ICO composite indicator price fell to 45.69 US cents/lb. The total value of annual exports by coffee-producing countries fell steadily throughout this lengthy crisis period, going down from US$13 billion in 1997 to around US$5 billion in 2001, 2002 and 2003. This slide will remain an unprecedented phenomenon in terms of scale, the change brought about in the nature of the correlation between fundamentals and the consequences in producing countries. Even though coffee prices began to recover at the end of 2004, showing a marked upward trend that leads us to think that the crisis is over, its negative impact on the coffee chain continues to make itself felt.

In the case of Côte d'Ivoire, farm maintenance continues to be a matter of concern since farmers are reluctant to believe in a sustainable price recovery. It should be noted that the crisis meant that producers found themselves once more in an extremely vulnerable position.

In the 1960s and 1970s when the market was organized on the basis of economic clauses in the international coffee agreements, there was much praise for the merits of a cooperation that benefited both producing and consuming countries. Statistics show that prices were maintained despite record production volumes during this period. In the 1983 International Coffee Agreement, the last of the agreements to include economic clauses, which were suspended in July 1989, the agreed price range was fixed at between 120 and 140 US cents/lb. Producers benefited from regular resources and roasters in importing countries could count on adequate supplies in terms of quantity and quality at prices which could be considered equitable since an agreed price range was established by the Agreement. Earnings from coffee enabled the State to undertake its development role without too much difficulty, building schools, roads and hospitals and providing extension services for mostly illiterate farmers, etc.

Since the deregulation of commodity markets in the early 1990s, the law of the jungle has come into its own with the widespread erosion of prices and deterioration in the terms of trade. At the same time, politicians, sociologists, economists and defenders of the environment and sustainable development, have all advocated the absolute need to place **man at the centre of development.**

In Africa, the decline of the coffee industry is not a new phenomenon. The recent crisis helped to accentuate its negative effects on economies of countries heavily dependent on coffee. In this basically agricultural continent, farmers' incomes are reduced in proportion to the fall in production, productivity, farm-gate prices and the lack of indirect aid in the form of extension services, distribution of phytosanitary products, etc. The consequence of this wide-ranging decline is increased poverty and destitution. Is it so surprising, then, that poverty should be exported and that the easy well-being of rich countries should seem so enticing that candidates for emigration are constantly on the increase?

Expulsion laws are no solution to the problem. We must promote solidarity for the development of all peoples without exception so as to curb emigration from poor countries to the rich.

B. THE NEGATIVE EFFECTS OF FALLING PRICES

B-1 Steadily falling production

Africa has vast areas with soils and climate suitable for coffee growing.

International Coffee Organization statistics show that **35 years** ago African coffee production totalled some 20.03 million bags, accounting for around **34.40% of world production and a 33.5% share of the world market.** Nowadays African production is below 15 million bags, accounting for **13.6%** of world production and **a 12.53% share of the market.**

A number of factors have contributed to this loss of competitiveness in terms of production. Apart from social conflicts, which have destroyed or weakened the coffee industry in some of the 25 African producing countries, such factors include mainly the halt in the opening up of new farmland, aging coffee farms in the absence of investment and the steady degradation of the ecosystem as a result of deforestation and soil erosion.

In African countries production was developed through extensive growth exploiting the natural fertility of virgin land. It may be noted here that coffee growing in African countries is **organic by default**. In the absence of productivity improvements, production grew as a result of the increase in areas planted to coffee and the availability of an abundant labour supply in the sector (coffee is very much a labour-intensive activity). The slowing down in the advance of new farmland was reflected in the fall in production.

In the case of Côte d'Ivoire, which was the world's leading Robusta exporter accounting for around 4 million bags in the 1970s, has fallen to rank in **8th** place with exports of only 1.9 million bags. This decline is attributable to the fact that since the early 1980s investment in new coffee farms does not compensate for the aging of coffee trees. It should be recalled that the first coffee farms in Côte d'Ivoire were planted in the period 1956-60. Most coffee trees have long since passed the limit of their economic life which is 25 years.

B-2 Steady deterioration in coffee quality

The problem of steadily falling production is compounded by the decline in quality of many African coffees. The intrinsic quality of the product has deteriorated with State withdrawal from the coffee chain as a result of various International Monetary Fund and World Bank structural adjustment plans. These various adjustment plans abolished agricultural extension services for producers regarded as over-spenders. But this deterioration is also a consequence of aging coffee farms, mediocre farm maintenance with upkeep reduced to a bare minimum, inefficient processing and transportation services and the lack of quality premiums when the product is bought from producers. In Côte d'Ivoire, collectors and exporters buy ordinary coffee at a single price. Since quality is not rewarded at producer level there is a proliferation of intrinsic and foreign defects.

B-3 Difficulty of access to financing

Access to credit is virtually closed to producers regarded as non-creditworthy by commercial banks since the various adjustment plans led to the abolition of the development banks so well adapted to the agricultural environment of African countries. Moreover, when credit is available, the interest rates charged are prohibitive. In the absence of financial services and even credit availability, African farmers either do not invest or invest very little. The consequence is minimal farm maintenance, low yields, steadily falling production and deteriorating quality.

B-4 A loss of earnings for the State

The loss of earnings attributable to low coffee prices in producing countries has had the following consequences:

- Public finance imbalance;
- Lack of public assistance measures to ensure producer training;
- Crisis in research programmes of dissemination of results to improve productivity and competitiveness.

B-5 A deteriorating social environment

The fall in producer incomes has led to the abandonment of many farms and encouraged an increasingly uncontrolled rural exodus, with the following results:

- Increased unemployment, particularly among the young;
- Increasing insecurity in towns and villages;
- Social tension with its trail of strikes and unrest;
- Etc.

C. HOW TO REDUCE THE EFFECTS OF THE CRISIS

The strategies we consider appropriate are these that tend to ensure a sustainable balance between supply and demand and thus provide sustainable support for prices. These include:

- Promotion of research and development and dissemination of results;
- Creation of a financing system to support production and credit associated with indirect subsidies;
- Readjustment of regulatory support mechanisms for world market prices;
- Promotion of quality coffee exports;
- Diversification of sources of income for producers through diversification programmes involving other activities;
- Promotion of processing activities, permitting an increase in added value.

C-1 Promotion of vertical diversification

The globalisation of the economy, which should have offered an opportunity to end the crisis, has been accompanied by tensions, difficulties, frictions and sometimes frustrations which must be overcome if we are to avoid widening the gap between rich countries producers or consumers in the North and poor countries in the South. This is why while African governments rightly insist on reduction of their debt, it is equally urgent and vital to encourage growing industrialization in producing countries based on the raw materials available to them both in quantity and quality. The amount of debt reduction could thus be allocated to industrial promotion of agricultural products.

A voluntary approach of this nature to the problem of increasing the value of commodities could protect our national economies from unpleasant surprises such as:

- Economic downturns;
- Erratic market development;
- Alternating production and price explosions;
- Downturns in price.

In other words, the link between tropical products and cash crops solely for export as commodities must be abolished in order to stop favouring anything but the development of semi-finished or finished goods with high added value.
For this purpose the following priorities should be envisaged:

- Promotion of modern, responsible and competitive family farming;
- Systematic research on ensuring maximum value for agricultural production;
- Methodical application of conditions for vigorous and competitive industrial development.

We are convinced that in a context of market liberalization, commodity valorisation in African countries is an important factor for economic and social development.

C-2 Promotion of sustainable development in coffee growing

In the context of falling prices, African producers are increasingly excluded from world markets given the strengthening of marketing criteria in terms of volume, reliability, quality, traceability and social requirements in consuming countries. Compliance with these criteria requires increasing investments to meet the demands and specifications established.

We must reduce the contradiction between the impoverishment of producers and the constant need to increase investments.
Sustainable development requires a social system capable of finding solutions to the tensions arising from unbalanced development.
Since many people depend on agriculture, mere survival often requires them to draw on the stock of natural and environmental capital.

Rapid population growth, degradation of the environment and increased poverty are the same side of the coin.
Where extreme poverty is widespread, the State is weakened.
Instability created by the struggle for survival can aggravate the social and economic weakness of the State.
The sustainability of the coffee economy should be based on the well-being of all those involved in the coffee chain, including the producers who are the weakest link in this chain.
There must be equitable remuneration at all levels involved.

Thank you.

Production by country

In 000 bags

Brazil	27,170
Others	26,984
Colombia	9,300
Indonesia	7,833
Vietnam	7,333
Mexico	6,193
India	4,700
Guatemala	4,500
Côte d'Ivoire	4,167
Uganda	4,000
Ethiopia	3,833

Source: ICO