

Coffee Policies in a Market Economy

A Clear View of the Future: Seeing Beyond the Barriers

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Trade Barrier Removal – Free Trade

A paradigm shift has taken place for the global coffee industry as coffee is bought and sold in a free market economy. While the free market economy will present challenges to the industry, it also holds the key to future success, leading to expanding economic strength in the producing world. To ensure a sustainable future, the coffee sector must make a commitment to break the mold and see the new opportunities that lie ahead.

The makers of the 2001 International Coffee Agreement recognized that these barriers are obstacles to consumption, and yet many trade barriers remain in place. I urge all signatories of the Agreement to recommit to removing these obstacles to consumption. Such commitment includes supporting the removal of such barriers in bi-lateral and multi-lateral trade agreements for both green and roasted coffee.

The adoption of free trade principals will also allow for the export of café concepts to producing nations, creating not only a stimulus in these countries for increasing domestic demand, but also new jobs and opportunities for citizens to climb the economic ladder.

The bottom line is that trade barriers impede the variety of green and roasted coffee. In turn, lack of variety inhibits consumption, low consumption reduces demand, reduced demand hurts prices, and reduced prices lower farmer revenues.

Clearly, challenges have been presented to the industry since the economic clauses were rightfully removed from the International Coffee Agreement. The irony is that the market forces that challenge the producing world also hold the key to the solutions. In other words, adapting to the new paradigms set by free markets requires solutions rooted in free trade.

Free trade not only increases commerce between signatory nations, but also places economic opportunity and strength directly in the hands of producers.

On the other hand, protectionist policies stifle consumption growth and economic opportunity.

Transparency

The foundation of free trade is market transparency. This means that meaningful, accurate, transparent statistical data on production is a must. It also means that one must understand the demand side of the equation in consuming countries.

Producing nation governments must embrace policies that promote, and an environment that facilitates, the adoption of technology that delivers real time market information and market signals to producers. Also, the private sector in consuming nations must provide accurate, realistic information on consumption trends and demand.

Also, the industry must join together, as producers and consumers, to identify and support alternative markets where appropriate, such as internet based auctions.

We must set aside national politics and work together to overcome a history of inconsistent statistical reporting, to ensure the credibility of data sources and to devise precise reporting parameters.

Transparency in the marketplace and expanded market access will guarantee the producing world the unique leverage it deserves as the source of the supply of coffee, in demand the world over. Market transparency not only protects producers' crop equity, but also enhances fair competition among producers. It is also critical to making sound production decisions.

In addition, basic education for those in the coffee sector is critical to enabling them to take advantage of the information they receive as well as to managing risk. In fact, the execution of sound production and business decisions lies in the ability of farmers to effectively use information.

Risk Management

There are many available risk management vehicles, and choosing the right one is a matter of each producer's individual needs, risk aversion and financial strength.

However, farmers must be provided with a complete menu of risk management alternatives as well as the knowledge to choose from the alternatives and to effectively employ their choices.

Most common is the use of options and futures. However, small and medium producers face barriers to accessing such instruments.

If the private and public sectors could join together in aggressively removing barriers to accessing these instruments, however, many more in the producing world could manage risk through the futures market. Most important to removing these barriers is providing education and the knowledge necessary to effectively hedge and take advantage of futures and options trading.

The New York Board of Trade has taken a leadership role by developing its “RiskMaster” program. Riskmaster, marketed by the National Coffee Association, is a CD-based trading simulation program designed to teach individuals in the coffee industry, particularly medium sized producers, how to manage risk by using the New York Board of Trade futures and options markets.

There are also ways beyond the futures market to manage risk, such as through production management and agricultural education.

Diversification

Diversification is an absolute must in the new environment. Farmers must be provided with expansive alternatives, including agricultural and non-agricultural diversification options. Producing nation governments need to ensure that infrastructure and delivery systems are in place to facilitate diversification. But, most importantly, producers must be provided with the knowledge and tools needed to make wise decisions.

Unfortunately, trade barriers also stand in the way of the kind of diversification and risk management that could help uncouple the farmer from the ups and downs of the market.

Inherent in developing attractive alternatives to supplement coffee production is a need for the United States to review and amend its policies, which currently limit market access to many alternative agricultural products. The National Coffee Association urges the US Congress to look at any and all forms of governmental barriers to trade, including US farm subsidies and restrictive tariffs that often close our own markets to foreign agricultural exports.

Increasing Consumption

Ultimately, long-term economic strength for farmers is dependent on growing coffee consumption. There is room to increase consumption in both consuming and producing nations, but the greatest opportunity for increasing consumption lies in the producing world and emerging markets.

To seriously address increasing consumption in the producing world, we must be willing to take the bold steps necessary to remove trade barriers and sell coffee in a free market environment. In producing nations, this means not only providing a free market environment for the importation of roasted product, but also providing for the importation of café concepts, thereby making a wider variety of

coffee conveniently available at attractive price points, while creating value added jobs and economic opportunity.

On the consuming side, we must also work diligently to increase consumption. In the United States, the leading reason consumers cut back on drinking coffee is concern about purported health risks.

As part of our commitment to increasing consumption, the National Coffee Association and its members – in partnership with the Specialty Coffee Association of America, the Colombian Coffee Federation, ANACAFE of Guatemala and ICAFE of Costa Rica – has launched an aggressive public relations campaign to get out the message that consumers told us would get them to drink more coffee – that coffee is good for your health.

Quality

As we commit to increasing global consumption, we must also re-commit to quality. In short, quality does make a difference. In fact, should we elect to commit to quality and provide the consumer, in both consuming and producing countries, with great tasting coffee that is readily available and convenient to consume, then tremendous opportunity and increased demand awaits us all.

Today's roasters are demanding quality at all levels, and require consistent quality regardless of the market segment they serve. Therefore, if you want to help increase consumption, quality is critical, and it is important that you think "quality" at every step.

In making your commitment to quality, keep in mind the words of Willa Foster. "Quality is never an accident. It is always the result of high intentions, sincere effort, intelligent direction and skillful execution. It represents the wise choice of many alternatives."

Global Community

As we look forward, for the betterment of the industry, also remember the words of Franklin Roosevelt: "Cooperation begins . . . where competition leaves off." "Competition," he added, "has been shown to be useful up to a certain point and no further."

The strength of the industry and the effectiveness of the International Coffee Organization are dependent on producers and consumers pulling together as one, united global coffee industry, engaging that same philosophy of cooperation.

With the free marketplace as a backdrop and free trade as the vehicle, we must identify policies and programs that we can support together to ensure a vibrant future for all in our industry.

The first step is to ensure that ICO procedures and practices reflect the sense of one global community. An attitude of producers versus consumers, or practices that enable such an attitude, are counterproductive and draw our attention away from our true competition: other beverages. We must strive not only to eradicate barriers to trade, but also to eradicate barriers that inhibit a sense of one, global coffee community.

Conclusion

Free trade is the key to a vibrant future in a free market economy. The foundation of such a future is market transparency.

Should we all commit to true transparency in the marketplace, and bolster this foundation with basic education, the future can be bright, and producers will have the knowledge and information needed to manage risk and to diversify.

Most of all, the entire industry must join together as one, strong, united global coffee community. Should we commit to working together, tremendous opportunity awaits us all, including increased consumption in consuming and producing nations alike.