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Lessons and countermeasures of the coffee crisis in Japan

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Your Excellency Mr. Roberto Rodrigues, Chairman of this conference, distinguished guests, ladies and gentlemen, it is my great honor and privilege to be given the opportunity to speak on behalf of the Japanese coffee industry about the theme of what we have learned from the coffee crisis experienced in the past.

When Japan joined the International Coffee Agreement in 1964, coffee imports into Japan were just one twentieth of the same in 2004. Since then, thanks to the partial contribution from the ICO promotion fund, coffee consumption has increased dramatically in Japan, as you all know. We are very proud of the fact that Japan is now placed as the 3rd. largest importer of coffee in the world, just behind US and Germany. We have, however, experienced coffee crisis several times in the past.

Lower market prices below production cost caused poor management of coffee plantation, which resulted first in deterioration of quality, later in decrease of production and finally excessive boost of the world prices. On the other hand, such turmoil of the market attracted other interest than the real coffee trade to enter into the futures market and amplified the skyrocket of price, which discouraged the consumption.

Instability of the world market prices affected not only quality of coffee but also many other issues of the refining industry. Nevertheless, we have overcome those problems and achieved a steady increase of coffee imports into Japan.

Having experienced myself as one of the chief executives at a coffee roaster in Japan, I would like to talk to you, ladies and gentlemen, what is necessary for securing materials of the final products in order to meet the requirement of our consumers both in quantity and quality.

1. History of Coffee crisis;

For the sake of understanding substantial reasons of the coffee crisis, let me look back first the history of crisis, what happened, what kind of countermeasures were taken and what was the eventual result.

During 1920th and 30th, coffee producers in Brazil tried hard to mitigate the over-supply. Other producing countries, however, increased their production at the sacrifice of Brazil and resulted in excessive supply in the world.

When Brazil changed her policy to liberalize shipments in 1937, market prices collapsed to the miserable level, which situation was repeated again in 1989 when the ICO export quota system was suspended. We have learned that such kind of an artificial measure to stabilize the market would never succeed. We were forced to accept the fate under which the only savior of the coffee industry is either frost or drought in producing country. In addition, rapid increase in planting Robustas in emerging producing country gave further pressure on world prices. Speculative funds entered more in coffee market and caused more volatility.

2. Roles played by the ICO export quota system:

Coffee producers could enjoy temporal boom right after the World War II, but shortly entered again in the stage of over-supply and eventual low prices. Having learned already unsuccessful outcome of a cartel formed by exporting countries only, leadership of the USA was welcomed in materializing ICA1962 including importing countries, being supported by the uneasy circumstances under the Cuban crisis, which gave the USA a good reason to protect coffee producers from communism. Because of the involvement of importing countries, ICA1962 could have a very solid foundation.

Until 1989, Japan received accumulatively 12.4 million US Dollars from the Promotion Fund of ICO. Together with our own fund, we could perform generic promotion campaign and market research, which helped a great deal to the remarkable increase in domestic consumption and we are very grateful for the contribution from exporting countries.

In the meantime, we Japanese coffee industry have fulfilled obligations imposed to the ICO members and we also dared to support reinstatement of export quota, with our solid belief that the most important thing for protecting our consumers was the stability of the world market.

In 1993, the largest importing country left from the ICO, mainly because of the unilateral attempt of the producing countries to start an exporters' cartel. After 12 years of absence, she came back to the same boat of international cooperation. We share the same heartfelt welcome, with all other members, for rejoining US to the ICO.

Now that there is no possibility to resume export quota system, its demerit in keeping quality and other aspects has been revealed not only for consuming countries but also for producing countries. Coffee is now one of the essential drinks in many countries in the world, but it can not be accepted by the consumers if it doesn't taste good.

3. Different kinds of crisis and its nature:

As I said before, long lasting dull market plunged not only producing countries but also consuming countries into crisis.

Back in 1975, coffee area in Brazil was hit by the worst frost, which destroyed coffee plantations totally in Parana state and price of green beans rose higher than 300 US Cents per pound. Domestic price of the final products followed up and it was reported some substitutes for green beans were introduced. Deterioration of quality caused immediate decrease in home consumption. Decrease of demand means smaller market for producing countries.

It is needless to say that in order to achieve sustainable development in coffee industry, it is indispensable to have a stability of both quality and quantity. For this reason, it is necessary to be assured remunerative price for producers. Stable price level, however, never lasted long in the past and any attempt to stabilize prices artificially could not succeed.

Having learned lessons from the history, so many ideas are presented to the international forum from many countries and also from ICO to seek the way to achieve sustainable development of the world coffee industry. In reality, however, very few of them are operating. It seems to be extremely difficult to establish a sustainable development plan and the way of avoiding crisis in future. I believe, however, it would be very important for us to clarify the reasons why coffee crisis happened, so that we can contemplate beforehand effective countermeasures to be taken up.

One of the best ways to encourage coffee producers would be to provide with the

steady market expansion in consuming countries. Our roasting industry in Japan has the same goal to achieve the healthy development in consumption. In order to safeguard this common target, it would be indispensable to have stable supply of green beans both in quality-wise and quantity-wise. For realizing this ends, we are prepared to pay reasonably remunerative price to the farmers.

Fundamentally excessive volatility of the market prices was caused by unexpected change in production size. While the sharp increase in prices was caused mainly by the damage of crop in large producing country because of abnormal weather, the big drop of the futures market was caused often by sudden release of the large amount of stocks. Decline of the prices always gives disappointment to the farmers and discourage their efforts to keep better quality and sometimes lead them to abandon their plantation. We have witnessed repetition of the deterioration of quality and quantity caused temporal boost in prices eventually.

4. What we have learned from the crisis as a large importer:

When we experienced unprecedented high price in 1977, retail prices in Japan marked three to four times higher and the domestic market had a big trouble, having witnessed some deterioration in quality also. Thanks to this lesson, we had much less trouble when the frost hit Brazil three years later and also in 1985 by drought.

In order to raise the sales price of roasters in Japanese market, we had to have very hard negotiations with retailers. Unlike the domestic market in US or Europe, we can hardly raise our sales price automatically, reflecting upsurge of the world market. Nevertheless, we never changed the percentage of house blend, in order to keep the quality to meet satisfaction of the consumers.

Furthermore, I have to mention how Japanese consumers stick to freshness of the final products. Size of retail package is so small to meet frequent purchase of the consumers that we have to prepare various kind of package. In the case of regular coffee, we have vacuum pack, ground coffee in tin, single brewing coffee, etc. Mainly because of large number of package, retail prices in Japan are a bit higher than those in US and Europe. Japanese consumers, however, rather prefer products of higher quality and of assured freshness, even if the prices are higher. Products of inferior quality would be kicked out from the market quickly.

From the beginning of 2000, world market prices declined below production cost and we have witnessed apparent deterioration in quality in some producing countries. Since Japanese consumers insist on better quality as I said before, many roasters are paying premium for the sake of securing quality beans.

Not only to be quality conscious, Japanese consumers are becoming more and more conscious about the ecological sustainability of the coffee supply. In this connection, such products as certified by the Rainforest Alliance are becoming well known in Japanese market. Purchase motivation of the consumers is now proved to be based not only on quality and freshness but also on other factors like ecology. Japanese consumers are also becoming keen on the safety of foodstuffs, being nervous about any residual chemicals or additives. Organic coffee, therefore, is now getting popularity.

Under these circumstances, Ministry of Welfare and Labor is now working hard to complete a positive list of chemicals to be used in agricultural products. We must support the task of the Ministry, I believe, actively. In our Association, we have asked cooperation of the coffee producing countries to research actual usage of chemicals in their fields, together with the works of Japanese ministries, in order to reinforce our position as the suppliers of safe beverage.

Up to 1970th, there were some medical doctors who warned coffee drinking was not healthy. Recently, however, many researchers have revealed the merit of coffee in preventing from liver cancer and diabetics. Nowadays we would be able to say that coffee is the champion of healthy drinks. Japanese group of doctors in epidemiology have proved the intake of caffeine can improve the mental work of human being.

We, All Japan Coffee Association, have committed to make every effort to increase further domestic consumption of coffee, advising our consumers on merits of coffee drinking. We do look forward to realizing sustainable development of world coffee market, being supported by cooperation between producing and consuming countries.

Thank you very much for your attention.