



International Coffee Organization
Organización Internacional del Café
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THE GLOBAL COFFEE CRISIS: A THREAT TO SUSTAINABLE DEVELOPMENT

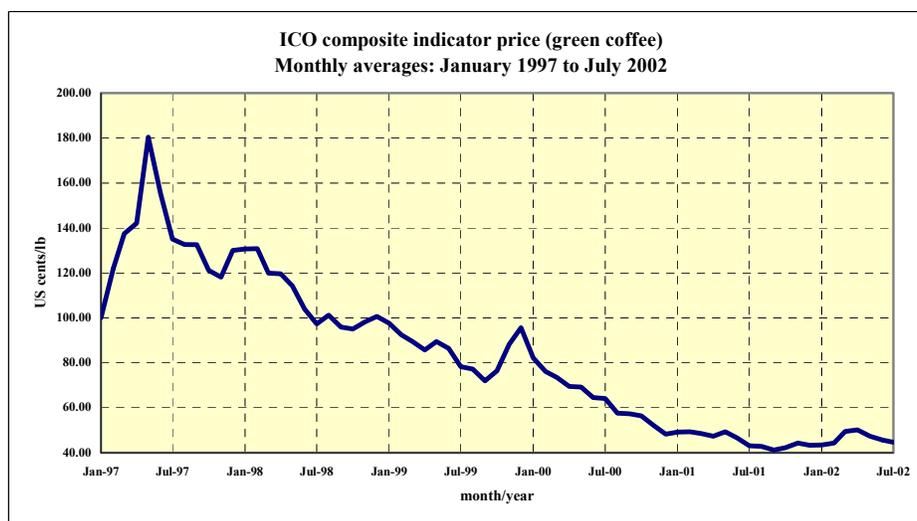
By Néstor Osorio, Executive Director

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The coffee crisis

1. The coffee industry in developed countries is generally perceived as prosperous and uncontroversial. But, although the coffee business is booming in consuming developed countries, current rock bottom prices are causing immense hardship to countries where coffee is a key economic activity, as well as to the farmers who produce it.

2. In the early 1990s earnings by coffee producing countries (exports f.o.b) were some US\$10-12 billion and the value of retail sales of coffee, largely in industrialised countries, about US\$30 billion. Now the value of retail sales exceeds US\$70 billion but coffee producing countries only receive US\$5.5 billion. Prices on world markets, which averaged around 120 US cents/lb in the 1980s, are now around 50 cents, the lowest in real terms for 100 years. The fall in prices over the last five years has been dramatic and is illustrated in the graph below. The drop in earnings is particularly severe for those countries such as Uganda where coffee provides a large portion (over half in this case) of export revenues.



3. This situation is caused by the current imbalance between supply and demand for coffee. Total production in coffee year 2001/02 (October-September) is estimated at around 113 million bags (60-kg bags) while world consumption is just over 106 million bags. On top of that, world stocks amount to some 40 million bags. Coffee production has been rising at an average annual rate of 3.6%, but demand has been increasing by only 1.5%. At the origin of this coffee glut lies the rapid expansion of production in Vietnam and new plantations in Brazil, which is harvesting a record crop in the current season.

4. It is estimated that over 125 million people worldwide are dependent on coffee for their livelihoods. But since it is a perennial crop it is not easy to switch to an alternative when prices are at today's levels. The consequences of the current situation vary but in many cases prices do not even cover the costs of production. The consequences can be summed up in three categories:

- (a) Where costs of production are low, technologies are well developed and exchange rate movements have favoured exports, coffee farmers can still make a living. This is the case in much of Brazil. Even here low returns have had an adverse effect on rural economies in terms of reduced farmer spending and rising unemployment.
- (b) Where coffee represents a cash crop element in a subsistence farm, substantially less money is available for expenditure on medicine, communications and education. This is the case in many African and some Asian countries.
- (c) Where farmers depend largely on coffee for income, including food purchase and where indebtedness has been incurred, farmers are either more heavily in debt or have been forced to abandon their farms or switch to alternative crops. Options for the latter may be reduced and may include proscribed drugs like coca. In Vietnam, there are reports of farmers selling their possessions to satisfy debt collectors. In Guatemala, for the 2001/02 crop, the harvest labour force has been reduced from 500,000 to 250,000. In Colombia, coca plantations can now be found in coffee areas. Coffee farmers from Mexico have died trying to enter the USA illegally after abandoning their farms, and indebted coffee growers have been committing suicide in India. In general the situation stimulates emigration to cities and to industrialised countries.

A threat to sustainable development

5. The International Coffee Organization (ICO) exists to implement the International Coffee Agreement, one of whose objectives is to encourage its Members to develop a sustainable coffee economy. The ICO recognizes that sustainable development has an economic and social as well as environmental dimension. There is little doubt that the exodus from rural areas and increased poverty in coffee producing areas caused by the current price crisis poses a very real and wide-ranging threat to sustainable development.

6. At the United Nations Millennium Summit in September 2000, Member States adopted a series of Millennium Development Goals calling for the reduction of the proportion of people living on less than US\$1 a day to half the 1990 level by 2015.

7. But according to Global Development Finance 2002, the World Bank's yearly report on developing countries' external finance, growth rates in many poor countries will still be too low for rapid poverty reduction. "Many poor countries have improved their policies, institutions and performance in the past decade. Because aid increasingly is channelled to these countries, aid is more effective today than ever before," says World Bank Chief Economist Nicholas Stern. "But even successful poor countries are being hurt by lower global growth, adverse trends in commodity prices, and declining aid." According to the report, the global economic slowdown is exceptionally deep and broad, and countries dependent on commodity exports such as coffee have been hit especially hard.

Consequences for consumers

8. Although consumers could be expected to benefit from low prices this is not the case in coffee. Firstly, the amount accruing to the farmer from the retail sales price of a cup of coffee in a coffee shop is probably less than 2%. Secondly, excessively low prices lead to lower quality. An example is the farmer who normally pays harvesters to go through the coffee trees three times during a harvesting season to pick the ripe cherries and now sends them through once only, picking unripe and overripe beans with the ripe ones. Another is the fact that the highly appreciated mild Arabica coffees are usually produced at a higher cost than natural Arabicas or Robustas so the percentage of the former is decreasing in blends as farmers find it increasingly hard to stay in business.

What can be done?

9. The ICO is an intergovernmental organization established by the United Nations in 1962, including both producing and consuming Member countries. It exists specifically to address world coffee problems and issues in view of coffee's exceptional economic importance and developmental implications.

10. Within the framework of the International Coffee Agreement 2001, which entered into force on 1 October 2001, the ICO has identified a number of ways both on the supply and the demand sides in which the coffee crisis can be addressed through international cooperation to create a healthier balance between supply and demand without regulating the market itself.

- On the supply side these are:

Quality improvement

11. In February 2002 the ICO introduced a new global Coffee Quality-Improvement Programme (CQP) to take effect on 1 October 2002. This sets minimum grading standards and maximum moisture content for coffee exports. The consumer will benefit from higher overall quality standards in coffee blends and the producers from the reduction in the current surplus through elimination from the market of sub-standard coffee. Both Governments and the coffee trade can play their part in supporting and implementing this Programme, which must be in their own long-term interest.

Diversification

12. Where possible promoting action to diversify farmers' over-dependency on coffee through encouraging additional or alternative activities and greater coffee product segmentation. Such a programme needs support from Governments and other donors.

Production monitoring

13. The ICO will act as a centre for information on Member country production programmes so that such programmes would be discouraged if likely to lead to imbalances. In addition, the ICO will ensure that multilateral and bilateral donor institutions are informed of the coffee balance in order to avoid inappropriate projects.

- On the demand side they are:

Promotion

14. The ICO will seek to build on highly effective promotion activities in new markets, such as China and Russia, to promote consumption of coffee particularly in partnership with the private sector and in producing countries themselves as well as new and existing markets.

Barriers to trade

15. Within the framework of WTO negotiations to seek the elimination of tariff and other barriers to all forms of coffee, together with those affecting all agricultural products originating in developing countries.

The international community

16. The International Coffee Agreement as a commodity agreement is still often associated with price regulation using export quotas or buffer stocks. However, such mechanisms have not been in force since July 1989 and the ICO today works to foster international cooperation on coffee issues in ways which do not intervene directly in the market.

17. One of the key objectives of the International Coffee Agreement, that of encouraging Members to develop a sustainable coffee economy, very much tallies with the goals of the *World Summit on Sustainable Development* of poverty eradication within a framework of sustainable development. In fact the objectives of the new 2001 Agreement are very much development-oriented and fuller recognition of this by other multilateral organizations would be very helpful. The special importance of the coffee sector to the economic development of producing countries should be more widely understood, with the corollary that the ICO should be regularly consulted with respect to projects and programmes addressing or affecting the coffee sector in such countries or globally. In coffee, which remains of key importance to a substantial number of developing countries including LDCs, the ICO should be recognized as constituting a fundamental instrument for cooperation and coordination in working towards sustainable development.