

INTERVIEW WITH DOCTOR NESTOR OSORIO, EXECUTIVE DIRECTOR OF THE INTERNATIONAL COFFEE ORGANIZATION: COFFEE TIME

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GENEVA, Apr (IPS) Though speculation by investment funds has introduced a persistent volatility into the coffee market, executive director of the International Coffee Organization (ICO) Nestor Osorio holds that it will maintain its current equilibrium and remunerative prices for the present year.

The Colombian diplomat, who recently attended a seminar in Geneva on Commodities and Development organised by the UN Conference on Trade and Development (UNCTAD), responds below to questions from IPS.

In this period of a commodities bonanza for developing countries, coffee appeared as the Cinderella, with falling prices. Will this tendency continue?

The situation has improved somewhat. In 1989 after the collapse of the regulatory system of the market there was a gigantic quantity of coffee withheld to satisfy quotas. Between 1989 and 1994 the coffee glut caused an enormous crisis around the world. It was an extremely difficult period for coffee-producing countries. Then in 1994, Brazil was hit by one of its periodic frosts. The cycles of the coffee market are always determined by weather events, and that was the case here: the 1994 frost was severe and followed quickly by another.

Did this improve prospects for the coffee market?

At first prices rebounded. Producer countries had already emerged from the coffee glut and there then began a period of four or five years of good prices. With this incentive and a favourable macroeconomic environment, in Brazil and Vietnam, to cite two examples, production increased, most dramatically in Vietnam, which was catapulted from being an insignificant player to being the world's number two coffee producer at around 15 million 60 kilo-bags per year.

How long did this boom last?

Before I answer that, remember that Brazil significantly devalued its currency between 1996 and 2000, such that when prices began to slide in 2000, the country was not hard hit by the crisis. In this period the Brazilian real stood at 3.6 to the dollar. Today it is about 2. Thus, the glut began in 2000. Supply grew at a rate of 3.5 percent while demand crept upward at 1.5 percent. At this time, a crisis is beginning much like that of 1990-1994 and then from 2000 to 2004 or

2005.

What were the effects of this latest crisis?

In most countries, coffee prices fell below the cost of production. At the same time other significant changes in economic policies were taking place. The depreciation of the dollar was beginning to gather steam, with the final blow being the jump in oil prices between 2003-2005. As a result in these four years the capacity of coffee producers to maintain plantations and quality was sharply diminished.

What were the effects on production?

Logically there was a drop in production. Brazil underwent a sharp correction, with production falling from a peak of 55 million bags per year to 30 or 35 million. Which brings us to the current situation. Supply has levelled off in the past two or two and a half years because of market factors. This year total production is 118 million bags, between 118 and 200 million to be exact. Consumption stands at around 117 or 118 million bags, which means we have reached an equilibrium.

And the future?

For the year to come, we already know that because of its cycle Brazil's harvest will be between eight and ten million bags below that of this year. In other words, there will be a production deficit, which leads one to believe that coffee prices will remain at a remunerative level.

What price level are you talking about?

Above one dollar per pound. The price of coffee varies according to the bean. For example, there is one price for mild Arabica, like that which comes from Colombia and Central America, currently between USD 1.15 and 1.20 per pound (453.6 gm). Brazilian coffees sell for between USD 1.10-1.50, while Robusta varieties sell for around USD 0.75-.80. Prices vary also according to quality and supply. However, the average price, which is the ICO benchmark, is about one dollar per pound today.

Is that high enough?

In my view it is still a precarious price. However, it allows coffee growers to cover expenses, although the high cost of oil and the depreciation of the dollar cancel out the increase in coffee prices. For this reason I think that market conditions are such that the price of coffee will neither rise nor fall substantially. There is considerable volatility.

Why is the market so changeable?

The reason for such volatility is speculation by investment funds. They buy in and then sell, with the result that one week the price of

coffee will drop eight cents per pound despite the fact that there was no change in market fundamentals, production, consumption, or the climate.

Despite this volatility you hold to your predictions for all regions?

For 2008 we'll have to see what happens with Brazil's harvest. Vietnam has now reached harvests of 13-15 million bags. They produce 100 percent Robusta coffee and are a very important player. It edged out many African producers. Indeed, it was the African producers that lost the most in this crisis. Latin America, particularly Colombia and Central America, made a name for the quality of their coffee. We are in a period that favours those who manage their production well. However, if producers believe that with the increase in prices they should boost production, they will be sowing the seeds for a new crisis.

The movement for fair trade has grown very strong in recent years. How is this playing out in the coffee sector?

The fair trade movement grew out of the first major crisis of the 1990s. Prices fell so sharply that certain people were moved by the plight of poor coffee farmers and dedicated themselves to find a solution. Early on there was talk of paying them five percent, or five cents, more. At the beginning fair trade was charitable in nature: let's help these poor people, was what we heard. However, one by one trade initiatives emerged that created incentives to pay farmers at a remunerative rate.