



Organización Internacional del Café
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ACTION TO AVOID FURTHER COFFEE PRICE CRISES

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The Coffee Crisis

1. In June 2003 I submitted a short document to the G-8 Summit in Evian in which I indicated that coffee prices had been at historically low levels for the preceding two and a half years, and in many countries were insufficient to cover production costs. I pointed out that this had led to great social and economic hardship in many developing countries. Sadly this situation only changed with a partial upwards correction in price levels at the end of 2004.
2. For several countries in Africa, Asia and Latin America that are dependent on coffee for a large percentage of their exports it has been estimated that losses in earnings from coffee have more than nullified total aid inflows in terms of value. In general the coffee price crisis led to increased poverty, social unrest, incentives to plant illicit drugs, rural unemployment, and illegal emigration in many developing countries.
3. The challenge continues to be the development of policies and actions to avoid a recurrence of the type of imbalance between supply and demand that gave rise to the crisis. In view of the continuing economic importance of coffee, and in the context of the analysis presented in the report of the Commission for Africa, I believe that this is a crucial element for sustainable development.

Policies for sustainable solutions

4. In looking for policies to avoid a recurrence of the problems encountered from 2000 to 2004 it is crucial to understand that there are severe constraints in many coffee-growing areas which inhibit the development of alternative economic activities. These constraints arise from environmental and infrastructure factors, the perennial nature of the coffee tree, requiring typically a 3-4 year lag between planting and initial cropping, and because of limitations on market access for otherwise viable alternatives. The policies of market liberalisation implemented in the last 15 years have in many cases helped to accentuate the commodity-dependence of many developing countries, particularly since, as mentioned, diversification options are frustrated in view of the difficulty of access to markets for other agricultural and industrial products. For this reason if a market-oriented approach is

promoted as the best way to secure optimal resource allocation for commodities it must be consistent by also promoting the removal of the non-market-oriented protectionist measures used in too many countries which curtail market access and hence diversification options for coffee producers. This is one of the reasons why a successful conclusion to the Doha Round is so important.

5. There is no doubt that the overriding need at present remains to guarantee the future of coffee through prioritising the issue of economic sustainability, i.e. to ensure that coffee production does not entail a loss to growers. Of course it may be argued that production should best be concentrated in a few main areas or countries with pronounced comparative advantages but, apart from the immense social costs arising from such an approach, this would lead to a huge potential loss in quality and variety which could pose a serious potential threat to sustained consumption.

6. I must emphasise that the strongest priority is to implement measures which encourage balance in the market. In fact many specific projects and initiatives can often only be successful if market balance maintains prices at levels at which the cost of such initiatives can be absorbed. It is essential to reiterate that economic sustainability for coffee farmers is vital because of the present lack of viable alternative activities in many coffee areas and the social costs associated with the destruction of the sector.

7. There is a limited number of market-oriented measures that can directly address the supply-demand balance. On the supply side the following policies are possible:

- a) to use the experience of the coffee crisis to create awareness in national and international bodies of the danger of embarking on any projects or programmes which will further increase supply without corresponding growth in demand;
- b) working to increase the benefits accruing from value-added coffee products such as gourmet or organic coffee, rather than traditional bulk commodity exports; and
- c) to provide access to finance for diversified production where possible, including improved food security and supply to the domestic market.

8. In working for a balanced market it is also vital to recognize the need for market development to increase demand, with a full recognition that projects to benefit the supply chain should involve action not just from farmer to exporter but from farmer to consumer. This should include:

- a) support for the ICO's Coffee Quality-improvement Programme and other quality projects as a means of improving consumer appreciation and consumption of coffee;
- b) action coordinated by the ICO to increase coffee consumption in coffee-producing countries themselves, which should have a number of positive effects such as providing an alternative market outlet, increasing producer awareness of consumer preferences, stimulation of small and medium enterprises, etc. as well as increased demand;
- c) ICO action to enhance knowledge and appreciation of coffee in large emerging markets such as China, where (as is usually the case in producing countries too) the private sector is not strong or coordinated enough to embark on the type of action needed without assistance; and

- d) protecting consumption levels in traditional markets through quality maintenance, developing niche markets and disseminating positive objective information on the health benefits of coffee consumption.

9. Market development programmes as outlined above are highly acceptable to most parts of the coffee community, including the private sector, which has worked successfully with the ICO in the past on such activities. Recognition of this is now needed from multilateral financing institutions and donor Governments. There are large amounts of funds in multilateral and national institutions earmarked for development projects but not at present readily available for the type of coffee sector initiatives outlined above. This should change. If direct supply management is not possible, diversification is difficult but actions for market development and quality improvement are broadly acceptable, steps to allocate funding for such projects need to be taken without further delay. Viewed from another perspective any future increase in production should be generated only by corresponding gains in demand.

10. This issue highlights the new role of international commodity bodies such as the ICO in the context of genuine partnership between developed and developing countries, since these bodies represent a unique forum where all stakeholders are represented on an equitable basis and where the needs and priorities of the major players can be fully represented. The ICO has shown that it functions as an effective instrument to channel resources for projects in areas such as value added, quality improvement and dissemination of technological advances. This emphasises that our approach, in seeking a sustainable market balance, is not to intervene in the market but to influence the variables which determine it.

11. I therefore appeal to G-8 leaders to support the policy guidelines outlined above and ensure that they are conveyed to multilateral donors and national development aid agencies.