

**Speech by Néstor Osorio, ICO Executive Director, at the 95th Convention of the
National Coffee Association of America 2006**

When I spoke to you last year I was able to say that we were just emerging from the period of crisis suffered by coffee producers as a result of nearly 5 years of rock-bottom prices. This process has continued and the coffee market now reflects a much greater balance between production and consumption. In the current 2005/2006 coffee year there is in fact a deficit in production relative to consumption. Looking forward to the forthcoming 2006/2007 coffee year, production and consumption are likely to be very close. In addition stocks in producing countries continue to decline. Recently I have received official information from the Brazilian authorities indicating that the carry-over stocks at the end of March 2006 in Brazil are likely to be around 9 million bags compared with 17.5 million bags at the end of March 2005, a drop of nearly 50 per cent. This is the lowest carry over since 1957.

Of course the rise in prices since the low points earlier in this decade represents a substantial percentage increase. Nevertheless it should be put into perspective: the average of the ICO Composite Indicator Price for February was 97.39 US cents per pound. This level is still well below those reached during most of the 1980s and 1990s. It is worth remembering too that many producers will have to repay debts incurred during the crisis years, and in some cases abandoned farms may not be returned to coffee growing.

On several occasions I have stressed the need for coffee producing countries to pass the message to their farmers that increased production should go ahead only in conjunction with increased demand, including the development of a coffee market in producing countries. This will greatly assist the development of a balanced market. Not only producers should benefit, the industry will gain from maintaining a healthy range of origins, achieving security of supply, increased consumer interest and increased sales. In fact the development of consumption in the coffee producing countries themselves, a process which is very much being encouraged by the International Coffee Organization, should lead to new opportunities for industry including opportunities for investment, and improvements in overall quality as farmers become increasingly responsive to consumer demands.

I am especially pleased to be present at this Convention because I attach great importance to the development of partnerships between private industry and farmers and governments. In the ICO the Private Sector Consultative Board is now playing a key part in communicating to governments the concerns of the industry and working to ensure that measures taken in areas such as health regulations take into account objective facts when dealing with coffee.

One of the major events in the coffee world last year was the 2nd ICO World Coffee Conference held in Salvador, Brazil in September. The theme of the Conference, which brought together experts and representatives both of the government and the private

sector, was “Lessons Emerging from the Crisis: New Paths for the Coffee Sector”. The Conference was important not only because of the presence and intervention of the Heads of State of Brazil and Colombia and more than 20 Ministers from different countries, but also the calibre of the speakers whose presentations revealed a number of common themes and priorities for action and generated innovative ideas.

On the demand side importance was given in particular to the following:

- Policies to develop coffee markets in producing countries and emerging markets;
- Promotion of quality;
- More emphasis on education for consumers and cooperation with retailers; and
- Removal of tariffs and other trade barriers both in importing and exporting countries.

On the production side the following themes were emphasized:

- Added value and encouragement of niche markets;
- Capacity building to develop organizations or associations of small producers, and
- Need for market transparency and objective estimates of fundamentals.

It was also recognized that it would be useful to identify positive and negative externalities in coffee production. For instance on the positive side much more can be done to inform the consumer of the beneficial effects that coffee has on the environment, such as positive carbon sequestration, stability of soils, conservation of biodiversity and maintenance of stable social communities. On the other hand it remains important to acknowledge the negative effects of the low price crisis, which included increased poverty, increased indebtedness and population movements to cities and indeed to other countries. The beneficial effects of coffee growing, particularly contrasted with other possible economic activities, could be used by many companies as an effective element in marketing strategies, although care has to be taken to ensure accuracy.

In the ICO we are taking very seriously the guidelines and ideas proposed at the Conference, which fit in very well with the market-oriented provisions of the current International Coffee Agreement.

As many of you know, we have just started to reflect on the future of the Agreement and the role of the ICO through a process of analysis and consultations to ensure that the Agreement in future provides the necessary framework for actions and cooperation which will benefit all stakeholders in the coffee sector. The basic principles and objectives that inspired the International Coffee Agreement in the early 60s remain relevant but it is clear that the old function of regulating the market is no longer a valid option. We now have the challenge of consolidating an instrument that will contribute to more sustainable rural development and promote policies and programmes that will help alleviate poverty. Here I should like to say how much I value the renewed US presence and participation in the ICO which is clearly reflected in the statement on the future of the Agreement

circulated by the US delegation to our Council¹ which states: “We wish to enhance the Organization’s role as a forum for intergovernmental consultations, increase its contributions to market information and market transparency and ensure that the ICO has a key role in identifying and promoting implementation of innovative and effective capacity building in the coffee sector, including promoting sustainable approaches to coffee production.”

I should like now to mention three other aspects of our work to which I attach particular importance:

The first is the promotion of quality. Continued improvement in coffee quality is facilitated by technological development but also needs to be recognized economically through prices. The benefits accruing to the industry in consuming countries should be an increase in sales, an improvement in consumer attitudes and the development of a larger consumer base. Good quality encourages the consumer to drink a second cup and consumer interest can be substantially enhanced by the presentation of a range of coffee products with noticeably different characteristics. In effect quality promotes sustainability in consumption. In this area I would urge you to consider too the opportunities offered by the ICO Coffee Quality-Improvement Programme. This is a totally voluntary programme, designed not to restrict trade but rather to enhance sales by reassuring consumers that the coffee they buy is in conformity with basic, internationally recognized standards, and thus helps to secure consumer satisfaction.

Secondly our coffee development projects programme, through which we have been able – largely in cooperation with the Common Fund for Commodities, but also with many other donors - to mobilise nearly US\$72 million for 21 projects addressing areas such as quality improvement, improvement in market structures, fighting pests and diseases, and rehabilitation following major disasters.

The other aspect is to encourage the fight against barriers to consumption, which includes inappropriate regulations supposedly based on health considerations, tariffs and poor quality. The Organization is actively disseminating objective research findings, published in peer-reviewed journals, to inform both the public and the health care professions of positive effects on health associated with coffee consumption. This material, identified and organized in a joint cooperative effort originated by the European industry and now with the added contribution of producing countries, is disseminated on our website www.positivelycoffee.org and is being harmonized with the excellent work already carried out by the NCA in this area. More and more recent research shows that coffee is not only a delicious drink but, taken in moderation, is good for your health.

I would like to express my recognition to Greg White who as Chairman of the NCA played a decisive role in the process of the United States rejoining the ICO. His advice and guidance were of great value to us.

¹ Document WP-Board No. 987/05.

And I want to welcome and congratulate Joe Appuzo on his appointment as the new Chairman and to invite him to continue the industry involvement in the ICO.

I should like to end by congratulating Robert Nelson on the positive input he is making at the ICO through the Association's presence on our Private Sector Consultative Board, and invite all NCA Members to continue to share with us initiatives and concerns in all areas of the business, bearing in mind that all we can do to enhance cooperation between producers and the industry will create a more healthy and sustainable business environment that should guarantee a brilliant future for coffee.