

Lessons emerging from the crisis: new paths for the coffee sector

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AA/LAC/USAID

Good afternoon. I'd like to thank the World Coffee Conference organizers for inviting me here today to talk about a subject, coffee, that I've been following for the past four years. I'm here today because I care about coffee producers, their families, and their workers. As the Assistant Administrator for Latin America and the Caribbean Bureau, for USAID I have specific interest in the countries of Latin America and the Caribbean; however, I'm here today to represent all of USAID and to talk about lessons emerging from the global coffee crisis.

First of all let me say how pleased I am that the US rejoined the International Coffee Organization or ICO earlier this year. Secretary of State Condoleezza Rice announced the US accession to the 2001 International Coffee Agreement on February 3, 2005. The International Coffee Organization has undertaken impressive reforms in recent years to strengthen its market orientation, build programs to help coffee farmers improve quality, efficiency and access to markets, and streamline the global coffee trade. It is a valuable forum in which to address the full range of issues affecting coffee production, trade and consumption. The negotiations for the next coffee agreement begin in 2006. The United States looks forward to working closely with our trading partners in the Organization as we negotiate the new agreement, so we can enhance development efforts and open markets.

Now let me tell you about USAID coffee programs. As an agency, we have been supporting the coffee-producing countries in this hemisphere, Africa and Asia to become more sustainable, competitive, and profitable suppliers of coffee. In response to the crisis over the past three years, from 2002 to 2004, USAID has invested over \$57 million on coffee projects in over 18 countries, and that figure will climb higher once we have our final numbers for fiscal year 2005 which ends this week.

USAID is assisting producers to improve the quality and marketing of their coffee, help ensure that they capture the highest possible price for their product, and thereby become more competitive and sustainable. USAID supports small and medium-sized producers to properly process and grade their coffee to ensure that the beans retain quality characteristics. We are creating new market information systems that are providing local producers with critical information on coffee pricing.

In the course of responding to the economic crisis caused by historically low coffee prices, USAID has played a key leadership role in a very powerful alliance. We worked closely with the Inter-American Development Bank and the World Bank in analyzing the situation and designing a response. In designing the response, we reached out to the firms buying coffee. We found that the coffee roasting and retailing industry needs high altitude, quality coffees and is willing to pay premium prices. Our response was to join forces with as many partners as possible, including private sector partners like roasters and retailers, to assist coffee producers and laborers improve their competitive advantage.

Since the demand for quality coffee is growing and quality coffee is proving to be profitable, we are partnering with the Specialty Coffee Association of America, the National Coffee Association, and the Coffee Quality Institute, and their members, with the shared objective of creating voluntary market standards based on quality to facilitate market growth. One of the new market platforms is the internet based Q Auction. Also we believe that there will ultimately be a market based Quality price benchmark for the high altitude coffees of

Central America, East Africa, and the Andean region. Much of our support for coffee is based on improving quality and competition in the emerging quality markets.

We are proud to count among our partners the coffee industry, large and small firms alike, from traders to roasters to retailers. The partners are too numerous to mention; however, I do want to highlight four of which we are particularly proud – Kraft with Rainforest Alliance; Proctor & Gamble with Technoserve; Starbucks with Conservation International; and Green Mountain Coffee Roasters with EcoLogic Finance. All of these alliances have two things in common, the sustainable production of coffee that protects the environment and the guarantee of a decent livelihood for small farmers and rural workers. We have found that this is a responsible industry that is investing millions of dollars, and we are proud to be part of such a powerful alliance in support of coffee farmers and their workers.

A specific example of a coffee project, that bears mentioning because of its significant impact is the alliance with the Coffee Quality Institute to create a new coffee price benchmark based on universally recognized private and voluntary quality standards. While the centerpiece of the program is an internet auction that moves commercial volumes into the market for quality coffees, the more important contribution of the program to the world coffee trade is the promotion of a new quality standard based on the Specialty Coffee Association of America (SCAA) cupping guidelines.

Results from the second year's trial auctions are promising. Q Auctions in Costa Rica, Nicaragua, El Salvador, and Guatemala moved over 10,000 bags of coffee at an average price of \$1.43/lb. In the first year 5,000 bags of coffee were traded, so in one year the amount of coffee sold doubled.

There are also indications that future Q Auctions might be successful in consolidating these market shifts with greater volumes traded. The trial auctions during the first year had 15 different successful bidders. About 45% of all lots were bought by Japanese firms, about 50% by U.S. firms, and the rest by European and Central American firms. In the second year there was a 16% increase in the number of buyers from the US and Japan. All of the coffee bought on the Q auction is commercial rather than promotional, and several buyers placed follow up orders.

Another partnership I want to mention because of its innovation is one we have with Green Mountain Coffee Roasters, Starbucks and EcoLogic Finance. Ecologic Finance provides trade financing in Latin America and most recently in East Africa. They fill a financing gap by providing pre-harvest trade credit to small-farmer cooperatives. Having cash on hand allows the cooperatives to promptly pay farmers who have buyer contracts with coffee roasters. By getting their money when their crops are delivered to the cooperatives, farmers are no longer forced to sell their coffee at steep discounts to intermediaries. This not only improves farmer income, but it helps roasters get the quality coffee they need.

This past year the Coffee Quality Institute and USAID initiated a Women in Coffee Leadership Program. This initiative recognizes the important role women have in increasing their household income and promoting economic development in their countries. The purpose of the program is to bring together women leaders in the coffee industry to provide them with orientation and training that strengthens their human capital and capacity to network and foster new commercial relationships.

The main lesson that I'd like to share is the importance of working with the market. By working together with the private sector, we've been able to come up with innovative, transparent market-based solutions to getting premium prices for quality coffee, which benefits the producers. We've also been able to leverage our funding, and we estimate the private sector contributions to the program for the past 3 years at about \$70 million.

We recognize that there are several initiatives underway in the coffee sector that involve many players, with several initiatives focusing on the key issue of 'sustainability.' That several players are focused on this key issues points to a greater need for transparency and coordination among the different actors. In recognition

of this, USAID is a proactive participant and supporter of the Sustainable Coffee Partnership, which is a multi-stakeholder platform involving all actors in the coffee industry, including civil society. The partnership aims to generate coherence, transparency, and momentum among diverse initiatives with a view to leveraging market forces towards systemic change. Interaction and discussion among the partners led to the identification of a gap that is common in all the sustainability initiatives. This gap is that there is a lack of clear, credible information on the costs and benefits to farmers. To address this gap, USAID is providing funding and technical support to the partnership to document, analyze, and develop strategies for farmers to better manage their farms in an economically and environmentally sustainable manner, including the adoption and utilization of procedures for farmers to record and track their costs, sales, and returns. We encourage other countries to get involved with this partnership.

While working on improving the competitiveness of coffee producers, we also recognize that many producers may not be able to compete in the global coffee market, so we also are supporting programs that help coffee producers, and their workers, find alternative livelihoods.

For example, the US just signed the U.S.-Dominican Republic-Central America Free Trade Agreement that will provide new opportunities for entrepreneurs. In support of the agreement's negotiation and implementation, USAID has been providing additional support for trade capacity building, with approximately 70% of USAID support or trade capacity building in the region being directed at small business development and rural diversification. With development assistance focused on the coffee challenges -- and more broadly on trade capacity building -- I'm confident that we can successfully address the coffee challenges through concerted global cooperation in fora such as the International Coffee Organization (ICO) which the US rejoined earlier this year, strong public and private partnerships in each region and country, and practical solutions that play to market realities and tap entrepreneurial talents.