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On the Road to Recovery

*Interview with Néstor Osorio,
Executive Director of the International Coffee Organization*

Nestor Osório, Executive Director of the International Coffee Organization (ICO), was in Bahia in November to attend the Brazilian coffee industry meeting. During his stay, he participated in the meeting of the *Conselho Deliberativo de Política do Café (CDPC)* – Deliberative Coffee Policy Council – and visited Salvador, where he met the State Governor to outline plans for an international coffee meeting to be held in the Bahian capital. Apart from the official agenda, Osório gave an exclusive interview to the *Revista do Café* in which he spoke of his expectations for the new world coffee scene, explained the Common Code for the Coffee Community and made some comments on coffee quality, particularly in respect of Brazilian coffee.

- **How do you assess the current situation of the coffee market?**

The current market situation is beginning to reflect developments in fundamentals and, more basically what has happened to world coffee production, in which the Brazilian share plays a major role. We have emerged from an unprecedented crisis of almost five years and are now in a situation that could be regarded as one of virtual balance between supply and demand. The only factor still weighing unfavourably on the market is the current volume of stocks, ranging between 40 and 41 million bags and evenly distributed between producers and consumers. World production is now between 113 and 115 million bags and world consumption is more or less at the same level. In the case of Brazil, production in the current crop year is 38 million bags. Estimates for the 2005 crop are based on the low point of the bi-annual production cycle and it is very likely that the crop will be under the current 38 million bags. The size of the Brazilian crop is a very important factor in projecting what will happen in the world coffee market. We are already emerging from the crisis and the market is firming at levels that already mean better remuneration for producers.

- **Are current prices already high enough to overcome the crisis of the last few years?**

Coffee producers have deferred payment of their debts in all the countries I am visiting, just as they have postponed investing in their farms for renewal and technical improvements. In an initial stage, capital earnings will have to be destined to offsetting the losses of previous years. If the next Brazilian crop is between 32 and 35 million bags, we will have managed to consolidate the balance between supply and demand.

- **What results can be expected from the price recovery?**

Prospects are good but prudence is necessary. We must not repeat what happened after 1994. I think it is very important to be prudent and take care that we don't start again a trend for encouraging production since we already know the results: low prices and problems with quality.

- **What led to the idea for a Common Code for the Coffee Community?**

The proposal came from an initiative by the German Government, which invited participation by representatives of producing countries, the coffee industry, civil society and the academic world. This was the consuming sector's way of responding to complaints concerning the striking discrepancy between the value earned by producing countries from their coffee exports and the value of re-exports of coffee by the industrialized countries. The earnings of producing countries were halved in the last few years, falling from between US\$10 - S\$12 billion to around US\$5 billion. The aim was, and in fact still is, to create a kind of guide designed to valorize coffee in some way, within given parameters such as environment, social responsibility and economic content.

- **And what was the result of this development?**

The result was the creation of the famous Common Code for the Coffee Community, which establishes conditions and certification procedures, mainly for the producing sector, to permit the valorization of coffee.

- **Were these provisions for certification and rules well received?**

In fact, the producing sector viewed these provisions with some reservations and concern. Their reason is that there is no responsibility or reciprocity on the part of buyers that would indicate a sufficient basis for improving the prices paid to producers. The initiative has many positive aspects. From the political viewpoint, it reflects concern and reveals an interest in seeking an understanding between the parties involved. The code has been improved in response to reactions and suggestions. I think the debate should continue. It is worth noting that this project is not of an obligatory nature and does not have to be adopted by the ICO. The German agency will be implementing some pilot projects in selected producing countries to enable us to monitor developments and undertake a technical and economic analysis of the components of the proposed code. The debate will be kept open so that it can be improved. This initiative is a long-term plan and, with appropriate adjustment, can contribute to the sustainability of the entire coffee chain, from production to final consumer.

- **Are there reasons for all these reservations?**

The producing countries are right to be concerned since the initiative does not clearly indicate – and may even lack – an economic dimension and provisions for a greater contribution by the industrial sector. In order to achieve better prices generally it is the producers who have to make the investments required to comply with the environmental and sociological provisions. I think we need to find a balance in which all these investments can be shared on a more evenly-matched basis.

- **Could this Code become a form of export barrier?**

Some analysts consider that the proposed Code could indeed become a technical barrier to exports by some countries since it could create certain difficulties as regards certification. I myself do not see it as a barrier at present. The Code is in the process of being implemented and I believe it will be put into practice over the medium and long terms.

- **In what way could the industry contribute?**

Coffee quality could become the basis of any valorization proposal. Producing countries have made a major effort to improve coffee quality as a means of adding value to the commodity as a commodity. The industry could contribute by recognizing this quality and paying what could be regarded as a remunerative price. I am not talking about a price based on cost because this is a very subjective criterion, in other words a price that would pay the rational production costs and provide a surplus that would enable producers to undertake renewal and technological investments and lead dignified family lives.

- **What is your assessment of the Coffee Quality-Improvement Programme in Brazil?**

The Brazilian industry has made a major effort to promote quality coffees and this is one of the pillars of the action plan which I presented to ICO Members. This plan includes, for the first time, proposals for decisive action to increase consumption in producing countries and develop emerging markets in Central Europe, Russia and China. Brazil has led the way by demonstrating how a particular action, like the seal of purity and the new quality seal, can be implemented by means of constant and continuous promotion. This is a development by the domestic industry which has managed to double the country's domestic consumption in the course of six or seven years.

- **Are consumers in a position to absorb this higher value?**

I think that consumer markets are in a position to absorb any price increases consequent upon the industry's recognition of coffee quality. The quality concept is gaining ground in the rich countries. You can see this in the striking case of Illy, which bases all its activities on quality and has higher prices for consumers but has widespread support. Other companies are doing the same. I think the market is ready to respond.