



Organización Internacional del Café  
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Organisation Internationale du Café

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**Qualitative tool for assessing the  
competitiveness of coffee growing areas**

## **Background**

A copy of the Executive Summary of the final report on a qualitative tool for assessing the competitiveness of coffee growing areas is attached. A copy of the full report (in English only) will be made available to Members on a CD-Rom.

## **Action**

The Council is requested to take note of this document.

## **Executive Summary**

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The fall in coffee prices since the late 1990s has highlighted the dependence that some countries have on coffee, not only as a source of foreign exchange, but also as a source of income in rural areas. In November 2002, the EU Ministers for Development Cooperation expressed their concern with this situation and highlighted the need to develop sustainable solutions based on a sound analysis of coffee growing areas. Following a request by the European Commission, the International Coffee Organization (ICO) decided to develop a methodological tool to aid this process, with a view towards assisting both coffee producing countries and the ICO. As such, the present study is the first response to the ICO decision. The second contribution will come from the Common Fund for Commodities, who has commissioned a study on diversification in coffee growing areas.

### **THE TOOL**

The tool developed in this study provides a means for assessing production and marketing costs, a key building block in the determination of a coffee sector strategy. This can then be incorporated into a SWOT (Strengths, Weaknesses, Opportunities and Threats) framework by providing a quantitative assessment of costs faced by market participants.

The tool has three components:

- Production Costs;
- Processing and Marketing Costs; and
- Profitability.

Its usefulness lies in its ability to provide a quantitative assessment of the production, processing and marketing functions. These data can then be used to analyse:

- Production costs resulting from different production technologies. These range from traditional production systems through to intensive hybrid based systems;
- The components of costs and variables that are essential for ensuring profitability;
- The breakeven cost of production, both at export and grower level;
- The impact of policy, or policy change, on production costs;
- Implied returns to labour given any export or grower price, allows comparisons to be made with the returns to competing crops; and
- Cost competitiveness vis-a- vis other producers.

The tool is presented in a MS Excel format and the underlying costs, prices and assumptions can easily be altered by users. This allows policy makers the ability to adapt the tool to meet their own needs and conduct sensitivity analysis on some of the underlying assumptions.

In using the tool to estimate costs in a number of case study countries, a number of findings emerge that not only highlight the tool's usefulness, but can also provide insights into the future direction of policy. These include:

- The exchange rate and the price of labour emerge as the most important determinants of costs;
- Production costs typically fall as intensity increases, although, in some cases, once a semi-intensive production system is reached, costs may be of a similar magnitude whatever the level of yields.
- There is a high degree of variation in processing and marketing costs between countries and, in some cases, high costs adversely affect cost competitiveness. For instance, among arabica producers, while Ethiopia has the lowest costs at grower level, this position is lost at export level once its high marketing costs are included.
- Cost competitiveness only reveals one side of the story; more importantly it is necessary to calculate profitability. For instance, some producers may have high costs of production, but relatively high selling prices mean that production is still profitable.
- During 2002/03, low international prices meant that few producers were able to cover their total costs and few were able to cover variable costs. That production continued is thought to be because producers reduced maintenance expenditures below sustainable levels and, in the case of smallholders, accepted an implied wage that was below that of the rural minimum wage.

It is envisaged that the tool developed in this study can either be used in-country as part of the analysis of the coffee sector and the preparation of a coffee strategy, or on an international level for comparative purposes.

In the latter case, the International Coffee Organization is the main intergovernmental organisation for coffee and would be expected to be its main user. The use of the tool would help it meet its objectives in terms of:

- Providing objective and comprehensive information and research on the world coffee market; and
- Ensuring transparency in the coffee market through statistics.

It could also provide a means for the ICO to help producing countries to undertake their own periodic monitoring and analysis of the coffee sector, and to assist them in the development of their own coffee development strategies.