



Organización Internacional del Café  
Organizaçào Internacional do Café  
Organisation Internationale du Café

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## **ACTION TO ADDRESS THE COFFEE CRISIS**

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### **The Coffee Crisis**

1. Coffee prices have been at historically low levels for the last two and a half years. Last year they hit their lowest point in 30 years and there has been only a slight recovery since. At present levels prices do not cover production costs in many producing countries, which has led to great social and economic hardship.
2. In the late 1980s coffee producing countries earned around 10 to 12 billion dollars annually from coffee exports, but this figure has now halved to 5 billion dollars. On the other hand the value of retail sales of coffee in consuming countries has risen from around 30 billion dollars to over 70 billion dollars during this period. For several countries in Africa, Asia and Latin America that are dependant on coffee for a large percentage of their exports it has been estimated that losses in earnings from coffee more than nullify total aid inflows in terms of value. In general the crisis had led to increased poverty, social unrest, incentives to plant illicit drugs, rural unemployment, and illegal emigration in many developing countries.
3. The coffee price situation arises from an imbalance between supply and demand that has now lasted for four years, exacerbated particularly by substantial increases in production (compared with the early 90s) and slow rates of increase in consumption.
4. In view of this, a number of initiatives have been introduced in the International Coffee Organization (ICO) to find appropriate solutions, including holding a high-level Round-Table on 19 May 2003 in co-operation with the World Bank to discuss possible ways of dealing with the crisis. Participants at this event included key leaders responsible for coffee in governments, the private sector and civil society.
5. The matters discussed at this Round-Table were further debated at meetings of the International Coffee Council from 21 to 23 May 2003. The Council agreed that information on the situation should be provided for the attention of participants at the G-8 Summit in June 2003, particularly as the issue of commodity trade was on the agenda. The present document provides a summary of the relevant policy issues.

### **A search for solutions**

6. At the Round-Table it was generally recognized that a totally free market in coffee entails excessive social costs and that some form of action with an impact on the market should be considered. The main areas which require support, both of a political nature and in terms of allocation of resources by industrialized countries and donor institutions, were identified as follows:

- (a) Redressing the supply/demand imbalance by increasing consumption, particularly through:
  - improvement of quality on the world market by supporting the ICO programme of minimum export standards established by ICO Resolution number 407; and
  - Support by donor institutions for demand oriented solutions as well as for supply projects and programmes, particularly with respect to funding promotion programmes in coffee producing countries and emerging markets.
- (b) Promoting diversification to reduce excessive dependence on coffee through support for appropriate diversification projects. It was recognised that this required substantial reduction of current tariffs and subsidies protecting agriculture in industrialized countries to secure market access for alternative products.
- (c) Support for broad-based rural development including the development of local processing capacity and producer associations, and measures to improve credit and risk management facilities.
- (d) Instituting information mechanisms under the co-ordination of the ICO to ensure that international coffee policy initiatives are co-ordinated in a manner that would assist in addressing the problems caused by the crisis and moving toward a more balanced situation with more equitable returns to the producers.

7. At this juncture, given the growing differences in the distribution of value in the supply chain between the developed and developing countries and the need to tackle the continued dependency of many poor countries on a few commodities, I appeal to you to build policies conducive to providing better conditions for sustainability in this crucial area of commodity trade.