



International Coffee Organization
Organización Internacional del Café
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ED 1966/05

8 August 2005
Original: English

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**ICO submission to UN General Assembly
Summit to review the Millennium
Development Goals**

New York, 14-16 September 2005

The Executive Director presents his compliments and, for the information of Members, attaches a copy of his submission to the UN General Assembly Summit to review the Millennium Development Goals. The Summit will take place in New York from 14 to 16 September 2005.



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London, 14 July 2005

THE IMPACT OF THE CRISIS OF LOW COFFEE PRICES

By Néstor Osorio, Executive Director, International Coffee Organization (ICO)

**Submission to the UN General Assembly Summit to Review the Millennium Development Goals,
New York, 14 - 16 September 2005**

The Coffee Crisis

1. In the ten years 1980 – 1989 the ICO Composite Indicator Price for coffee averaged 127.92 US cents per lb. and coffee-producing countries earned an average of US\$10.2 billion in annual export revenues from coffee. In the five years 2000 – 2004 the average price had dropped to 54.33 cents and annual export earnings to US\$6.2 billion. The decline over the last few years in prices for commodities such as coffee contributes to increased poverty and makes it more difficult to reach the Millennium Development Goals. This was acknowledged in November 2003 by the Deputy Secretary-General of the UN, Louise Frechette, in a statement to the General Assembly, in which she added that lower revenue from coffee exports had also endangered the HIPC initiative (for Heavily Indebted Poor Countries).

2. The impact on poverty of the coffee price crisis, which lasted nearly 5 years from 2000 to 2004 and has only to a modest degree been reversed, has been well documented. Evidence provided by coffee producing countries to the ICO is compelling. In many countries reductions in the cash income of farmers means less money for basics such as medicine and education. In the latter area girls are particularly at risk of being kept from school. In El Salvador the World Food Programme has had to distribute emergency rations to 10,000 coffee-growing families. There have been widespread increases in unemployment. Moreover the crisis has led in many areas to abandonment of farms, population movement to urban areas and illegal migration. Problems of low prices have also increased incentives to plant narcotic drugs.

3. The economic impact of coffee on many producing Least Developed Countries (LDCs) can scarcely be exaggerated. In 1999, before the crisis years, coffee exports accounted for over 50 per cent of the export earnings of four African LDCs, Burundi, Ethiopia, Rwanda and Uganda. It has been estimated that some 125 million people worldwide are dependent on coffee. For several countries in Africa, Asia and Latin America where coffee accounts for a large percentage of exports it has been estimated that losses in earnings from coffee have more than nullified total aid inflows in terms of value. The graphs in the Annex show the movement of coffee prices over the last 25 years and movements in export earnings and farm-gate prices. The extent of the drop in prices and earnings in the crisis years 2000 - 2004 is very clear. Moreover in spite of the upward price movement

initiated in late 2004 the ICO composite price is still below the average for the 1980s and 1990s. The situation revealed here, taken from the perspective of poverty reduction, is clearly a matter of concern. Not only have prices dropped but with them the earnings of the countries themselves and their farmers.

Policies for sustainable solutions

4. The most obvious strategy in the case of uneconomic commodity production is to diversify into a crop or activity which provides a better return. Although this would be the classic economic solution I must emphasise that in many coffee areas there are no realistic diversification options. Because of ecological conditions, infrastructure and restrictions on market access to other crops it can be extremely hard to identify viable alternatives. Many ideas have been put forward to ameliorate conditions for coffee farmers in areas such as diversification of production, technical advances and capacity building in coffee communities. However I believe that the real challenge is to develop policies and actions to avoid a recurrence of the type of imbalance between supply and demand that gave rise to the crisis. In view of the continuing economic importance of coffee, and in the context of action to achieve the Millennium Goals, I believe that this is a crucial element for sustainable development. There is one further consideration: because coffee is an evergreen broad-leaved shrub it contributes positively to carbon sequestration. It also stabilises soils and encourages the formation of stable social communities. In fact under almost all conditions of production coffee makes a positive contribution to the environment.

5. In looking for policies to avoid a recurrence of the problems encountered from 2000 to 2004 it is important to note that, linked to the perennial nature of the coffee tree, a 3-4 year lag between planting and initial cropping is normal. It also appears that the policies of market liberalisation implemented in the last 15 years have in many cases helped to accentuate the commodity-dependence of many developing countries, particularly since, as mentioned, diversification options are frustrated in view of the difficulty of access to markets for other agricultural and industrial products. For this reason when a market-oriented approach is promoted as the best way to secure optimal resource allocation for commodities it must be consistent by also promoting the removal of the non-market-oriented protectionist measures used in too many countries which curtail market access and hence diversification options for coffee producers. This is one of the reasons why a successful conclusion to the Doha Round is so important.

6. The overriding need at present remains to guarantee the future of coffee through prioritising the issue of economic sustainability, i.e. to ensure that coffee production does not entail a loss to growers. Of course it may be argued that production should best be concentrated in a few main areas or countries with pronounced comparative advantages but, apart from the immense social costs arising from such an approach, this would lead to a huge potential loss in quality and variety which could pose a serious potential threat to sustained consumption.

7. It follows that the strongest priority is to implement measures which encourage balance in the market. In fact many specific projects and initiatives can often only be successful if market balance maintains prices at levels at which the cost of such initiatives can be absorbed. It is essential to reiterate that economic sustainability for coffee farmers is vital because of the present lack of viable alternative activities in many coffee areas and the social costs associated with the destruction of the sector.

8. In a submission made to the G-8 meeting in Gleneagles in July 2005 I noted that there is a limited number of market-oriented measures that can directly address the supply-demand balance. On the supply side the following policies are put forward:

- a) to use the experience of the coffee crisis to create awareness in national and international bodies of the danger of embarking on any projects or programmes which will further increase supply without corresponding growth in demand;
- b) working to increase the benefits accruing from value-added coffee products such as gourmet or organic coffee, rather than traditional bulk commodity exports; and
- c) to provide access to finance for diversified production where possible, including improved food security and supply to the domestic market.

9. In working for a balanced market it is also vital to recognize the need for market development to increase demand, with a full recognition that projects to benefit the supply chain should involve action not just from farmer to exporter but from farmer to consumer. This should include:

- a) support for the **ICO's** Coffee Quality-improvement Programme and other quality projects as a means of improving consumer appreciation and consumption of coffee;
- b) action coordinated by the ICO to increase coffee consumption in coffee-producing countries themselves, which should have a number of positive effects such as providing an alternative market outlet, increasing producer awareness of consumer preferences, stimulation of small and medium enterprises, etc. as well as increased demand;
- c) ICO action to enhance knowledge and appreciation of coffee in large emerging markets such as China, where (as is usually the case in producing countries too) the private sector is not strong or coordinated enough to embark on the type of action needed without assistance; and
- d) protecting consumption levels in traditional markets through quality maintenance, developing niche markets and disseminating positive objective information on the health benefits of coffee consumption.

10. Market development programmes as outlined above are highly acceptable to most parts of the coffee community, including the private sector, which has worked successfully with the ICO in the past. Recognition of this is now needed from multilateral financing institutions and donor Governments. There are large amounts of funds in multilateral and national institutions earmarked for development projects but not at present readily available for the type of coffee sector initiatives outlined above. This should change. If direct supply management is not possible, diversification is difficult but actions for market development and quality improvement are broadly acceptable, steps to allocate funding for such projects need to be taken without further delay. Viewed from another perspective any future increase in production should be generated only by corresponding gains in demand.

11. This issue highlights the new role of international commodity bodies such as the ICO in the context of genuine partnership between developed and developing countries, since these bodies represent a unique forum where all stakeholders are represented on an equitable basis and where the needs and priorities of the major players can be fully represented. The ICO has shown that it functions as an effective instrument to channel resources for projects in areas such as value added, quality improvement and dissemination of

technological advances. This emphasises that our approach, in seeking a sustainable market balance, is not to intervene in the market but to influence the variables which determine it. I therefore ask participants in the Summit to take due note of the effects on development of current patterns of commodity trade and to give serious attention to considering the ideas outlined above. The ICO is ready to help mobilise all possible support to this end.

