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Review of themes raised in the 4th World Coffee Conference

REPORT OF THE EXECUTIVE DIRECTOR

Background

1. The 4th World Coffee Conference was held in Addis Ababa, Ethiopia from 6 to 8 March 2016, with the theme 'Nurturing Coffee Culture and Diversity'. Over 900 participants took part, including Ministers, Ambassadors, and high-level dignitaries from across the world, along with representatives from the private sector, coffee farmers and academia.

2. The Conference comprised 7 panels on a variety of topics relating to the overall Conference theme, with 22 panellists and moderators speaking and discussing the state of the coffee sector. A full list of all speakers can be found in Annex I.

3. This document provides a brief summary of each panel, along with the key messages emerging from the debate. It subsequently highlights some implications for the work of the ICO, and the most pressing challenges to the global coffee sector. Further resources such as speeches, photos and videos of the event can be found on the ICO website at www.ico.org.

Action

Members are invited to take note of this document. The Secretariat has identified some implications for the ICO's work derived from the discussions held during the 4th World Coffee Conference and if appropriate, this will be incorporated into the Strategic Review document that will be submitted to the International Coffee Council in its 117th Session.

REVIEW OF THEMES RAISED IN THE 4TH WORLD COFFEE CONFERENCE

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Panel 1: Towards a Diverse and Sustainable Coffee Culture

This panel was chaired by Mrs Geraldine J. Fraser-Moleketi, Special Envoy on Gender, African Development Bank (AfDB). Panellists representing Latin America, Africa and Asia reviewed the diverse culture of coffee in their countries and the challenges that all the players in the coffee sector need to address in order for coffee growers to achieve economic sustainability.

Key Messages:

- The pillar of sustainability that is most often overlooked is economic sustainability and yet this is arguably the most important. If coffee growers do not have a viable business, how are they going to continue to produce coffee and make improvements in the areas of both social and environmental sustainability?

- Income for farmers equals price multiplied by quantity. In Africa the main challenge to a farmer's income is quantity as productivity is very low at around 300kg/hectare due to a lack of extension services. While the quality of African coffee is being improved, this alone is not enough to make production sustainable. Yields for African coffee producers urgently need to increase.

- In Colombia, productivity lags behind Vietnam and Brazil but, at the current rate of over 1000kg/ha, is far greater than in Africa. Rather, the challenge for growers in Colombia is on the price side of the income equation. Coffee growers have been encouraged to find ways to differentiate their coffee allowing them to move to areas of the market where they can obtain higher prices and therefore be more profitable. The price of coffee is also a concern in Ethiopia where domestic consumption could be even higher but it is more advantageous to export the coffee.

- For Brazil, which is currently the largest supplier of sustainable, certified coffee, the most pressing issue is how to impress on small coffee farmers the need for sustainable coffee production. These farmers need to realise that the greatest beneficiaries of a sustainable coffee sector are themselves. The Sustainable Coffee Programme has been rolled out across the country and thanks to the participation in its design of all of the country's coffee stakeholders, it has been widely accepted.

- Extension services need to be strengthened worldwide in order that producers do not have to rely on costly certification and verification schemes to be recognised as sustainable. The smallholders most in need of sustainable production are those that miss out on the benefits associated with obtaining certification due to its cost. Accordingly, governments and local cooperatives have a strong role to play in disseminating tools and information such as the sustainability curriculum to all producers.

- In addition to the problem of reaching the smallholder farmers who throughout the world make up the vast majority of producers, an obstacle to mainstreaming sustainable coffee is that there is no requirement for it to be good quality. Improving the quality of sustainable coffee should be considered as a necessary by-product of certification.

- In terms of consumption, there is huge potential for domestic consumption to grow in both Ethiopia and China. In Ethiopia this is because coffee has been an integral part of the country's social and cultural fabric ever since it was discovered that coffee could sustain weary travellers. In China on the other hand, the opposite is true and coffee culture is just beginning to emerge as students return home from studying abroad with a desire to continue drinking the beverage.

- Inclusion of women throughout the value chain and at all levels is vitally important. Various programmes have already shown the huge benefits to be reaped from having women involved in any decision making process and specifically in managing a household's finances. At the executive level, just as on the coffee farms, the women do most of the day to day work and yet they are excluded from major decisions to the detriment of all concerned.

Panel 2: World Coffee Consumption Trends

This panel was moderated by Dr Demese Chanyalew, Agricultural Economist and independent consultant. Panellists discussed the development of coffee consumption worldwide and its future prospects, offering viewpoints from various geographical regions and market segments, and sought to determine whether the demand for coffee will continue to increase given the current global economic outlook.

Key messages:

- The increasingly positive image of coffee led to a 3% rise in global coffee consumption in 2015. This trend is set to continue with emerging markets in Africa, the Middle East, and Asia in particular due to demographic growth in China.

- Coffee consumption continues to increase due to a variety of trends: increased consumption of soluble coffee and single-use coffee pods, more interest in ethical sourcing, worldwide interest in different coffee preparation methods, and the millennial generation reproducing out-of-home consumption within the home.

- Challenges affecting coffee supply include climate change and crop disease, poor agricultural practices, rural exodus, and industry consolidation. In this context, critical adaptation strategies will be required to sustain productivity. Studies have shown that, as a result of climate change, productivity will need to quadruple by 2050 in order to meet demand. Training of agronomists and farmers is currently under way in Africa in order to counteract the effects of climate change.

- Industry consolidation is a threat to medium-sized coffee companies as 37% of the coffee industry is in the hands of two players, putting pressure on the price of raw materials and undermining the bargaining power of smallholders.

- Differentiation can create value for growers at origin through higher coffee prices which will lead to a more positive attitude towards coffee.

- Coffee farmers would also benefit greatly if the burden of certification costs was taken away from them or reflected in the price paid for their coffee.

Panel 3: Trends in Specialty Coffee

Chaired by Dr Abera Tola, Regional Director, Synergos, this panel discussed the impact that the specialty coffee movement has had on the industry, particularly on farmers' income. Panellists offered viewpoints on the definition of specialty coffee and its future, specifically on how specialty coffee can continue to differentiate itself from mainstream coffee, which is increasingly adopting specialty coffee characteristics.

Key messages:

- It is unclear whether smallholder farmers in Africa are seeing any positive changes in their livelihoods arising from their involvement in the specialty market. Producers find themselves in a market where buyers have a stronger comparative advantage and are looking for increasingly higher quality. Specialty coffees bring premiums but to take advantage of them, coffee growers need to improve productivity.

- Consumers in Western nations have mostly dictated the definition(s) of specialty and producers have had to adapt. For example, now that there is a new Coffee Lexicon, how will farmers be affected? Training and capacity building to farmers on new terminology is necessary.

- Some panellists expressed the belief that, while significant steps have been taken to create an equitable value chain, many constraints remain. Panellists pointed out that the current price discovery mechanisms for coffee are not working well for specialty coffee and are affecting producers disproportionately. One panellist suggested that the New York market has failed in its function as a price discovery mechanism because the underlying commodity described is Washed Arabica when 100% of growth in consumption over the last 30 years can be attributed to Robusta and Natural Arabicas.

- Government intervention, scalability of finance mechanisms provided through development efforts, and increased willingness from buyers to pay higher prices and provide financial coverage for producers is necessary.

- One panellist pointed out that the Specialty Coffee Association of America (SCAA) attempted to define specialty coffee based on the quality of the raw material at the point of exchange between the buyer and the farmer, while in Europe it was defined at the consumer level. Today, specialty coffee is generally seen as the totality of the experience, defined by the relationship between consumer and farmer facilitated by actors along the value chain.

- Traceability of coffee down to the farm level was singled out as being important in the definition of specialty coffee.

- There is intense downward pressure on prices in the commercial markets and continued growth in specialty, resulting in a bifurcation of the market. Panellists pointed out that marketing budgets are needed to promote specialty coffees on the international level.

- One panellist said that mainstream coffee is increasingly adopting specialty characteristics and he regarded this as positive. The panellist argued that specialty coffee offered a solution to the problems the coffee industry was suffering in the 1980s with a loss in consumers. Overall, specialty has increased gross added value which is good for the industry.

- While some steps have been taken to improve representation of women in the coffee sector, there is a lot of work to be done. It was suggested that the conversation about women’s empowerment tends to focus on the producing side when women also face underrepresentation on the consumer side. One panellist suggested that the coffee industry must find why there are impediments for women in coffee and build a meritocracy that is gender blind.

Panel 4: Climate Change and Coffee

This panel was moderated by Mr Mario Cerutti, Institutional Relations & Sustainability Director, Lavazza SPA and it was followed by a side event hosted by the Coffee and Climate Change initiative. Panellists discussed concrete adaptation or mitigation measures which can be undertaken as climate change continues to be a major threat to coffee production. The session covered the latest research results and initiatives launched by the private and the public sector.

Key messages:

- In recent years a broad consensus has been established that climate change is one of the biggest challenges to the future of the coffee sector. Depending on the growing region, increased levels of rainfall or prolonged dry spells will have negative implications both for coffee quantity and the quality of production. This is worrying as the incomes of coffee growers, many of them smallholders, may be affected; the supply of quality coffee could be threatened while global demand is steadily increasing.

- Simulations show that in the case of Ethiopia large areas which today are dedicated to coffee production may become increasingly less suitable. Similarly, in Cameroon farmers already encounter less favourable production conditions and sharply decreasing yields.

- Through field trials it has been established that adaptation measures need to be site specific in order to offset the impact of climate change. For example, planting of shade trees can alleviate some of the heat stress caused by higher temperatures, especially for Arabica plants. Breeding and disseminating more resilient coffee varieties is important but in most cases the adoption of a bundle of measures including modified growing techniques is necessary to strengthen the resilience of the production system.

- However, there are limits to adaptation in the most severely affected areas, especially in the production of Arabica coffee. Hence a regional shift of production to areas of higher elevation may be necessary. Due to its geographic characteristics this may be a viable option for Ethiopia, but cannot necessarily be replicated in other countries.

- Climate change is a global phenomenon and requires a coordinated response. The increased availability of research results together with higher awareness on the impact of climate change among stakeholders in the coffee sector has triggered public and private sector responses. For example, industry driven programmes foster the resilience of coffee farmers through transfer of skills related to climate smart agricultural practices. Results are promising but need to be scaled up. These initiatives are increasingly flanked by Government actions in the form of adaptation (NAMA) and mitigation (NAPA) measures. Costa Rica has been a role model in the development of these policies. The Paris Agreement has been an important catalyst as more and more countries step up their efforts.

Panel 5: The Role of Innovation and Public Policy in Increasing Productivity

This panel was chaired by Dr Dennis Rangi, Director General of Development, Centre for Agriculture and Biosciences International (CABI). The panellists discussed the latest developments in research and innovative technologies that could contribute to increasing productivity and production. They also explored public policies in exporting countries that foster the adoption of modern farming techniques.

Key messages:

- In order to maintain a fair balance between supply and demand, coffee production needs to increase. It is expected that by 2020 the market will face additional demand for coffee that will have to be met.

- Research should help to develop new varieties that are productive and resistant to pests and diseases. This will require the creation of a new generation of coffee varieties by 2022 through the development of breeding programmes and strong cooperation between national and international research institutes.

- The issue of technology transfer to farmers needs to be addressed. In this regard, the experience of some exporting countries should be shared. Initiatives by some non-governmental organizations should also provide case studies and lessons from which coffee growers could benefit.

- Due to the high costs of extension services, it is suggested that farmer organizations be strengthened to transfer technology and best practices to small scale farmers.

- Governments should support farmers in moving away from subsistence farming to commercial farming. In order to achieve this, innovation and stronger public policies are needed. In this way, financial literacy, technology transfer and the use of good agricultural practices should increase. Furthermore, governments should design strategies for revitalising coffee growing communities through the encouragement of the participation of women and youth in coffee farming.

Panel 6: Promoting Gender Equality for a Sustainable Coffee Sector

This panel was chaired by Ms Jennifer Gallegos, Vice President and Director, International Women's Coffee Alliance (IWCA). Additionally, this panel was preceded by opening remarks from Mrs Roman Tesfaye, First Lady of the Federal Democratic Republic of Ethiopia. How can we ensure that female coffee farmers have the same access to resources and opportunities as their male counterparts? In this session, panellists presented potential solutions for reaping the rewards of gender equality. It focused on the IWCA's partnership with the International Trade Centre (ITC).

Key messages:

- Coffee provides a livelihood for around 20 million Ethiopians, of which the majority are women. In many developing countries where smallholder farmers primarily produce coffee, women represent the majority of the labour force too. According to a 2015 study of the African Development Bank, women in Ethiopia make up 75% of the coffee industry workforce, but control only 43% of the revenue.

- Inequalities between men and women in their right to enjoy the benefits from their hard work in coffee have grown disproportionately. Women will not be economically empowered unless we overcome the social, political and economic exclusion of women everywhere, at all levels of the value chain, namely processing, roasting and exporting.

- Changing the current situation calls for a multidimensional and coordinated effort where governments, the private sector and development partners put in place policies and strategies from gender perspectives; ensuring that women are active contributors of the policy-making and strategy development process. This requires:

    - Providing women with equal access to agricultural extension services, financing and access to land.

    - Investing in capacity building of women in coffee to develop entrepreneurship, leadership, skills development and training, to enable them to improve the quantity and quality of the coffee they grow, process or export.

    - Establishing cooperation and networks among women in the coffee sector thus giving them a platform to find a strong voice and negotiating capacity to influence policies, strategies and market trends in their favour. There are few platforms in place today to reach women directly or for buyers to ensure that the supply chains they are buying from are taking steps to improve gender equality by empowering women.

- o Facilitating access to wide and diversified markets, so women can increase their competitiveness and economic benefit. This needs to be backed with measures that enable them to meet international market demands.

- o Increasing efforts to allow women a share of the processed coffee export market.

- There is a cumulative mass of research, anecdotal evidence and economic analysis suggesting that the role of women on smallholder farms has a direct correlation with production and crop quality. In addition, it shows that women tend to spend more on household nutrition, education, and children's well-being than men do.

- Women's empowerment and the adoption of gender-sensitive policies are crucial because of the contribution they make to shifts in gender roles. Participation in local decision-making is where women can most readily challenge the status quo and thus have their voices heard in regard to allocation of land, choice of crops and labour allocation.

Panel 7: Coffee Prices and Volatility

This panel was moderated by Mr Roy Parizat, Senior Economist, Agricultural Global Practice, The World Bank. Panellists discussed the current market situation, specifically the prevailing low international prices, and considered the impact of both prices and price volatility on coffee farmers.

Key messages:

- In terms of the current market situation, the importance of exchange rates was emphasized. Not all producers were being affected equally by changes in the global price; producers in Brazil, Colombia and Indonesia, for example, had not experienced the full impact of price decreases due to their depreciating local currencies. This meant that some producers were able to cover their costs of production, while others were not.

- As a consequence, coffee production is becoming more concentrated worldwide, with a small number of highly efficient producers dominating the market. This increases price volatility, as can be seen already in the cocoa market, and this trend is likely to be exacerbated by climate change.

- Looking ahead, coffee supply and demand were seen as being roughly in balance in the near term, with any price increases likely to be the result of unforeseeable events, such as adverse weather, or a reversal in exchange rate trends.

- In terms of consumption, it was noted that although demand continued to increase, the younger generation of consumers did not tend to drink as much as older generations, and coffee faced increasing competition for market share.

- On the subject of managing price volatility, it was observed that while instruments do exist for producers, for example hedging on the futures market, these are not always appropriate and can cause more harm than good. Furthermore, price risk is not the only threat to producers, with issues such as climate risk and other production risks also requiring attention.

- The public sector can be effective in helping producers adapt and develop; for example in Ethiopia investment in upstream processing capacity and public extension agents has increased production, while Honduras has seen a huge increase in production due in large part to government intervention. However, this progress could be undone by prevailing low prices.

IMPLICATIONS FOR THE WORK OF THE ICO

As in previous years, the results of the World Coffee Conference provide some key implications for the future work of the ICO and more specifically for the Strategic Review process that the Organization is undertaking at the request of its Members. Rather than being classified by panel, these insights have been grouped according to theme and area of action. As such, there are four broad areas from which the ICO can draw knowledge.

i. Information & Research

- The ICO can foster market transparency by increasing its capture, analysis and dissemination of statistical information. This can help both consumers and producers to adjust to market trends and mitigate price volatility.

- Conducting research into the economic sustainability of producers, for example by evaluating costs of production, can help identify where low prices have the most detrimental impact.

ii. Promoting best practices

- The ICO can help disseminate information on best practices both within its Membership and beyond, in order to share examples of successful initiatives.

- This can include information on risk management schemes, for example through the Consultative Forum on Coffee Sector Finance, or on initiatives to adapt to or mitigate climate change, such as NAMAs and NAPAs.

iii. Strengthening Public-Private Partnerships

- In its role as the pre-eminent intergovernmental organization for coffee, the ICO can play a crucial role in promoting coordination and collaboration between the public and private sectors.

- Such collaboration can take the form of providing extension services, which have been historically proven to increase farmer security, or sustainability programmes such as the Global Coffee Platform.

- Climate change is one of the most significant threats facing the future of coffee production worldwide, and requires a coordinated response. The ICO is well placed to bring together and promote Public Private Partnerships that can address this issue.

iv. Advocacy

- Finally, the ICO has an important role to play in advocating for issues such as gender equality and youth engagement.

- This is a cross-cutting issue that should be incorporated at all stages of the ICO's work, for example through projects, forums and communications.

LIST OF SPEAKERS AND MODERATORS

Panel 1: Towards a Diverse and Sustainable Coffee Culture

- Moderator: Mrs Geraldine J. Fraser-Moleketi, Special Envoy on Gender, AfDB
- Mr Abdullah Bagersh, Chairman, African Fine Coffees Association (AFCA)
- Mr Fred Kawuma, Secretary General, IACO
- Mr Roberto Vélez, General Manager, National Federation of Coffee Growers of Colombia
- Ms Jingya (Lucy) Fu, Secretary General, Chinese Coffee Association
- Mr Carlos Brando, Independent coffee expert, Brazil

Panel 2: World Coffee Consumption Trends

- Moderator: Dr Demese Chanyalew, Agricultural Economist
- Mr Andrea Illy, CEO, illycaffè
- Mr Giuseppe Lavazza, Vice Chairman, Lavazza
- Mr Cornel Krummenacher, CEO, Nestlé Equatorial African Region
- Mr Philippe Juglar, President, Agency for the Valorization of Agricultural Products (AVPA)
- Mr Barry Yuen, Chairman, Speciality Coffee Association of Hong Kong

Panel 3: Trends in Specialty Coffee

- Moderator: Dr Abera Tola, Regional Director, Synergos
- Mr Samuel Kamau, Executive Director, AFCA
- Mr Ric Rhinehart, CEO, Specialty Coffee Association of America (SCAA)
- Mr Mick Wheeler, Former Executive Director, Speciality Coffee Association of Europe (SCAE)
- Mr Takele Mamo, General Manager, Yirgacheffe Coffee Farmers' Cooperative Union

Panel 4: Climate Change and Coffee

- Moderator: Mr Mario Cerutti, Institutional Relations & Sustainability Director, Lavazza SPA
- Dr Aaron Davis, Senior Research Leader, Royal Botanic Gardens, Kew, United Kingdom
- Mr Michael Opitz, Managing Director, HRN Stiftung and President of coffee & climate
- Dr Michel Ndoumbè Nkeng, Bio-statistician and Head of Research, The Institute of Agricultural Research for Development (IRAD), Cameroon

Panel 5: The Role of Innovation and Public Policy in Increasing Productivity

- Moderator: Dr Dennis Rangi, Director General, Development, Centre for Agriculture and Biosciences International (CABI)
- Dr Tim Schilling, Executive Director, World Coffee Research
- Dr Joseph Kimemia, Head of Planning, Performance Management and Quality Control, Kenya Agricultural & Livestock Research (KALRO)
- Dr Vele Pat Ila'ava, Secretary for the Department of Agriculture and Livestock, Papua New Guinea
- Mr Paul Stewart, Regional Director, Coffee Initiative, Technoserve

Panel 6: Promoting Gender Equality for a Sustainable Coffee Sector

- Opening remarks: H.E. Mrs Roman Tesfaye, First Lady of the Federal Democratic Republic of Ethiopia
- Moderator: Ms Jennifer R. Gallegos, Vice President and Director, IWCA
- Mr Robert Skidmore, Chief, Sector Competitiveness, Division of Market Development, ITC
- Ms Emebet Tafesse, Ethiopian Exporter, Chair of the IWCA-Ethiopia Chapter
- Mrs Asnakech Thomas, Owner and General Manager, Amaro Gayo Coffee Enterprise

Panel 7: Coffee Prices and Volatility

- Moderator: Mr Roy Parizat, Senior Economist, Agricultural Global Practice, World Bank
- Mr Ermias Eshetu, CEO, Ethiopian Commodity Exchange
- Mr Steve Pollard, Coffee Trader, Marex Spectron
- Ms Judith Ganes-Chase, President, J. Ganes Consulting, LLC
- Dr Bart Minten, Senior Research Fellow, International Food Policy Research Institute (IFPRI)