

## ICO/World Bank High Level Round Table – 19 May 2003

This event is certainly timely, and is a good example of North/South cooperation and collaboration.

John Maynard Keynes raised a warning voice at the Bretton Woods Conference convened in 1944. He said:

“Proper economic prices should be fixed at the lowest possible level, but at the level sufficient to provide producers with proper nutritional, and other, standards, in the conditions in which they live....It is in the interest of all producers alike that the price of a commodity should not be depressed below this level, and that consumers are not entitled to expect that it should.”

His wise words have been largely ignored.

There is, however, a developing international consensus that we urgently need to adopt an integrated approach to sustainable development - an approach which is based upon the understanding that social, economic and environmental priorities must work together.

In the case of coffee, and the millions of people involved, the impact of the dependence on this commodity affects households, communities, and whole countries. That is why an integrated approach is needed.

We know that there is terrible suffering and hardship at the very heart of the coffee business – we know about the inequities, the despair and the destitution.

We also know full well about the substantial profits which are being made by the companies which control more than half the market, and that developing country

commodities such as coffee, have been subjected to the worst excesses of market forces.

The issue of the four big roaster companies and the market structure is clearly a fundamental problem. I certainly had a graphic example of this in Uganda recently. I met a grower who was getting 150 Ugandan shillings for a kilo of her beans. Later, at the Sheraton Hotel in Kampala, I paid 1,000 shillings for one cup of coffee.

It is indeed a cruel irony. The coffee industry apparently thrives, and coffee growers end up with about 5% of the price of a jar of instant coffee we take from our supermarket shelves.

A while ago, a Financial Times leader claimed that "the very idea that the International Coffee Organisation could argue long term supply restraint is like talking about a kind of Organisation of Petroleum Exporting Countries for coffee". It is, it was claimed, "a pipe dream". Our task has to be to prove them wrong!

In addition, they said that the Oxfam campaign "could capture the public imagination, but is likely to make only a marginal difference to the market". That point about the outcome of the campaign we can clearly dispose of, because it has captured the public imagination - and we are working on the second!

I would like to turn to the role of the European Union in these efforts to respond to the coffee crisis. The Union spends billions of euro on economic and social development in the affected African and Latin American coffee dependent countries, and where, for example, the potential benefits of debt relief are being seriously undermined by the crisis.

In Ethiopia last year, the country lost more revenue from coffee than they received in debt relief. In addition, the EU has a powerful voice in the global

debate on how to manage commodity markets. EU Member States make up 15 of the 21 importing country members of the International Coffee Organisation. The EU also has a clear and declared trade, aid and development approach to international solidarity, and has the necessary policy instruments.

In practical terms, what we are now seeing is that in Kenya, for example, a new elected government struggles to deliver on education and health priorities – with substantial EC budget support. At the same time, their efforts are being undermined by the disastrous effects of the coffee crisis on their national economy. It simply doesn't make sense.

The fact is that after the General Affairs and External Relations Council last November, EU Ministers asked the Commission, "to come forward with ideas to address the situation of commodities in general, including coffee".

The Commission proposal that there should be a Coffee Donor Alliance is very welcome, but we still need to see a plan of action with concrete proposals. This has been called for in resolutions in the European Parliament and in the recent ACP-EU Joint Parliamentary Assembly in Brazzaville.

We were encouraged by Commissioner Lamy's clearly expressed concern about the damage which is caused by the sheer speed of the opening up of markets.

In addition, he said, "the collapse of coffee prices is indeed utterly catastrophic. It was an example which should give pause to those who promote trade liberalisation of all agricultural markets".

Joining with his colleague, Commissioner Nielson, he was aiming to "achieve a better coordination of the various instruments at our disposal".

The EU can play its part, as its Member States can at the G8, where the issues related to commodities will be on the agenda. I certainly support Oxfam and the Global Alliance for Coffee and Commodities' proposal that there should be a decision to establish an independent commission on coffee and commodities.

The long term solutions will be critical, but I would like to emphasise the need for immediate assistance and for the European Commission's continuing and essential engagement with ways in which economic restructuring can be more effectively supported.

Frankly, if this doesn't happen then coffee producing countries will find that they will continue to struggle with the same market and supply side constraints on their capacity to trade, and compete, in the global market place.

The beleaguered farmers require support for rural diversification, market intelligence, development of co-operatives, expanded extension advice, better access to credit and agricultural imports, and schemes to help farmers to make the most of premium coffee market niches. With the political will, this is all attainable.

As far as African members of the ACP family are concerned, unused Stabex resources should be allocated according to national development priorities.

If the decision is, for example, to get completely out of coffee, sugar or bananas, then this should be supported.

Given that so many governments' fiscal stability is severely affected by the crisis, there needs to be a root and branch look at how we can mobilise their existing funds - which after all belong to ACP countries - in ways which the EU can provide immediate relief.

In Rwanda, last year, I learnt that the Commission has given Stabex support to every commune, which amounted to about €1 euro per person. I learnt too of the benefits of these resources to rural communities and the farming economy more generally, and indeed that local communities had been the decision makers.

It appears that the new system replacing Sysmin and Stabex under the Cotonou Partnership Agreement is not producing the hoped for results, that there are inordinate delays, and that decisions on countries like Uganda, Tanzania and Ethiopia have still not been made. The system is designed to allow the European Commission to support national budgets where there has been a drop in export related fiscal revenue.

May I today request some help for these countries which are affected, in the form of written evidence on what exactly is going on and what problems they are facing under the new FLEX scheme.

All of this reinforces the need for the European Union to adopt a fast track initiative in support of coffee dependent economies (using almost €1,000 million of 8th EDF resources and the 9th EDF 'B' allocation).

Coffee producing countries will, of course, benefit from the decisions taken by Commissioner Nielson to support the Education For All Campaign, from the EU Water Fund, and from support for the Global Fund on Aids, Malaria and TB.

In addition, the European Council has agreed to use ACP funds to finance an EU contribution to the HIPC initiative. All this is welcome, and will have almost immediate benefit.

There has to be a serious consideration by the EU of all the ways in which bilaterally, or through multilateral initiatives, we can respond. This should include assisting the ICO with its efforts to implement the Quality Scheme.

The Commission has in fact already made a commitment to carry out a comprehensive monitoring of coffee quality and in compliance with ICO resolution 407, 'in close collaboration with the private sector'.

Every quarter, the ICO will receive information from the European Coffee Federation on whether coffee quality requirements are actually being met.

I trust that we can also secure agreement from the Commission to go further, particularly on ways in which we can independently monitor coffee entering the EU's markets. Publication of the results of such an exercise would expose those countries and companies which are trading below ICO standards. Customs authorities could undertake this task, and the cost would be negligible – although the benefits to poor coffee farmers would be considerable. In addition, this would relieve the hard-pressed producer countries of this task. I need to be convinced that the claim that this would be against international law is, in fact, proven.

The issue of tariff escalation, should, and could, be dealt with, and there is a willingness to do this as part of the Doha Development Round.

Like so many other aspects of the Commission's engagement with preparations for Cancun, it is an important way of proving that we really do understand the link between trade, development and poverty reduction.

Indeed we should also, of course, urgently deal with the dumping of subsidised food on developing country markets. A pressure which seriously jeopardises their opportunities to diversify and compete.

In addition, the EU is best placed to establish a strategic and immediate joint scheme with key coffee-producing governments that have expanded coffee production and now face major losses.

The scheme would help producers to take low grade and loss-making coffee out of production, and would involve financial support for transition costs, and diversification.

There are, therefore, many credible and promising ways in which the EU can act - and has to act - in view of the disastrous effects of the loss of so many livelihoods, in countries where economic tensions and pressures are translating into social problems and instabilities.

I couldn't say to that women in Uganda, "Oh well, it's the market". Try telling her that when her coffee crop is not worth harvesting, when her children have no uniforms or books for school, and she can't afford to buy medicines or even put food on the table.

That is what we are dealing with here. That is the stark reality, and it demands a response.