

**STATEMENT MADE BY DR. JUAN MANUEL SANTOS
AT THE ICO/WORLD BANK HIGH-LEVEL ROUND TABLE ON THE
INTERNATIONAL COFFEE CRISIS**

London, 19 May 2003

Exactly one year ago, as Colombia's Minister of Finance, I was in this Council Chamber making a statement during the 86th Session of the International Coffee Council. At that time the ICO composite indicator price was around 47 US cents/lb. and the price of Colombian Milds was 66 US cents/lb¹. Two months later, the ICO composite indicator price had only recovered by 4 US cents and the price of Colombian Milds had fallen by 1.5 US cents.

These price levels confirm that the coffee crisis has not diminished. Prices continue depressed, the market over-supplied, the distribution of income inequitable and the poor quality of the beverage a matter of concern. The free market has proved unfriendly to coffee and the current disorder in the world market has been fostered by the lack of vision of some producers and the overweening ambition of some traders.

At present there are 10 million bags of surplus coffee on the world market: the equivalent of eight months of consumption is held in bonded warehouses worldwide (one third of this amount is in the hands of consumers); the volume of exports has increased at an annual rate of 1.5 million bags over the last five years while their value has fallen, on average, by US\$1,500 million a year. Last year, the average unit price of a 60-kilo bag of coffee was US\$60, i.e. US\$100 less than in 1997.

The loss of income and the fall in prices have had only one victim: coffee producers in more than 50 countries throughout the world. I will never tire of saying that the market should be given a free hand. In the case of coffee, however, total liberalization of the market has brought only disaster and penury for producers.

We said as much a year ago, speaking to representatives of producing and consuming countries and those of multinational companies: for coffee producers globalization has been a failure. The free market imposed on us after the breakdown of the International Coffee Agreement has favoured only the interests of big business in the developed world. Neither coffee growers nor final consumers have benefited from this new order.

¹ *Average monthly price for May 2002. Source: ICO*

President Jacques Chirac said at the beginning of this year: "There is a kind of conspiracy of silence on the commodities issue. There are no easy solutions...but nothing justifies current indifference."² President Chirac is absolutely right.

Indifference must be overcome but, as we shall see, the effort must begin at home.

Otherwise:

How can poverty be halved before 2015, as proposed in the targets of the United Nations Millennium Summit, if producers of the second most important commodity in international trade are still going bankrupt throughout the developing world?

How are we going to meet the target for all the world's children to have attended primary school by 2015 if the resources of coffee-growing families prevents them from paying for their children's education, thus increasing the school dropout rate in producing countries?

How are we going to reduce by 25 percent – before 2010 – cases of AIDS among the young if low incomes from coffee, especially in Africa, are not sufficient to finance public health programmes?

How can we improve living conditions – by 2020 – for more than 100 million people living in poverty belts in the great cities if unemployment in the coffee-growing areas of producing countries is triggering migration to the already overpopulated urban centres?

Finally, how are we going to meet the targets approved with so much hype at the United Nations Millennium Summit and ratified last year at Monterrey if they prove to be nothing but empty words and even when action is taken it is often against the interests of the poorest countries?

The longer we do nothing, the more explosive will be the social consequences of the coffee crisis. At present, more than 125 million people worldwide depend directly or indirectly on coffee growing. Of these, 25 million work on coffee farms in 50 countries whose per capita income seldom exceeds US\$1,000 p.a. **No commodity has greater social impact than coffee.** In some countries coffee accounts for more than 80 percent of total exports and 50 percent of Gross Domestic Product.

What some do not realize, or do not want to realize, is that with a little effort in a sector like coffee, the social return would be very great. It is incredible that the richest countries spend more than US\$1,000 million a day on an uncompetitive agriculture that accounts for only

² *Speech made by President Chirac at the 22nd Summit meeting of Heads of State of Africa and France held on 21 February 2003. Quoted from the OXFAM report "Europe and the Coffee Crisis", 6 March 2003.*

5 percent of GDP and employs a maximum of 10 percent of the labour force in countries with a greater "agricultural vocation", while at the same time ignoring the penury of millions of the world's poor who earn their livelihoods from coffee.

The distortions caused by subsidies in world agricultural trade decrease the possibilities of diversification into alternative crops in coffee growing countries. In the same way, the agricultural policy of developed countries has condemned developing countries to being net commodity exporters. Developed countries not only subsidize their agriculture but also seal off their markets by imposing high tariff barriers, quotas and complicated import licence systems that make it impossible for the agricultural products of developing countries to gain access to these markets. The creation of added-value, providing more remunerative employment, has been the most penalized, since existing tariff scales in these markets hamper the development of a more diversified and better paid exportable agricultural production. This is evident in the case of coffee. Some developed countries tax any coffee processed beyond the green coffee stage with duties of between 7.5 and 9 percent.

These are the same countries that condemn the failure of multilateral trade negotiations in the World Trade Organization, hindering worldwide agricultural reform with their stubborn opposition, and making it impossible to meet deadlines for agreeing ways to reduce subsidies, tariffs and domestic assistance for agriculture.

These are the countries that keep international commodity prices low and many of them have also contributed to the disorderly growth of coffee production. In other words they have caused damage on two fronts. Their development agencies have channelled significant resources to countries like Vietnam to enable them to increase their coffee production, particularly of Arabica. This is the case of the French Development Agency which was prepared to provide flexible credits of US\$40 million for Vietnamese coffee growers to plant more than 100,00 hectares. Fortunately, the programme did not go ahead because of producer reluctance to incur debt.

Another effort of this nature is that of the German Cooperation Agency GTZ, which seems to have taken up the French project to plant Arabica in Vietnam. It is a matter of serious concern that such projects are being carried out, since they contribute nothing towards solving the world coffee crisis and tend to make it much worse. The world market does not need more Arabica even if this is at the expense of Robusta. **To plant more coffee is to sow greater misery.** Faced with these "cooperation" efforts and the double standards of certain developed countries in agricultural management, we can only smile sarcastically at pronouncements on indifference like those of President Chirac, and at so many other Heads of State who rend their garments in despair at the growth of world poverty.

If we think along these lines, bodies like those that had the happy idea of organising this event, the ICO and the World Bank, should propose that cooperation agencies in developed countries should direct their aid to horizontal diversification projects and alternative crops capable of generating effective export earnings to replace those from coffee.

Producing countries have responded to the crisis. Colombia offers a clear example. Having lost over US\$1,500 million in export earnings since 1997, the Colombian coffee sector carried out drastic adjustments which helped to cushion the impact of the crisis and create a greater capacity to respond.

Yield in bags per hectare increased by 45 percent between 1999 and 2002. Production costs fell from one US\$/lb. in 1998 to 62 US cents last year. The area under coffee decreased by 35 percent in less than a decade.

As Minister of Finance, I promoted the Support Programme for Colombian Coffee Growing through the creation of a series of policy instruments to support the internal price and finance sectoral reconstruction. In 2002 the Government provided resources of more than US\$63 million to stabilize producer earnings.

In addition, we have implemented the recommendations made by the World Bank in its study of Colombian coffee growing on the organisation of small coffee farmers: risk management and diversification; the improvement of competitiveness, brand differentiation and management; maximization of benefits to producers; and efficiency and transparency of coffee institutions.

Despite efforts like those of Colombia, however, we are far from being able to claim that we have overcome the crisis. Producers have done everything they can. There is no point in telling us we must be more efficient because we cannot be. There is no point in telling us to reduce our production costs even further because we cannot reduce them to zero, particularly considering that of the two, three or even four US dollars paid for a cup of coffee here in Berners Street or in Tokyo producers receive only one or two US cents. Consumers must also take responsibility for facing up to this problem.

Governments and the coffee industry in consuming countries must play a leading role in solving the coffee crisis and should do so before social and economic collapse in coffee producing countries becomes more widespread.

If we do not work together to adopt effective measures to permit a recovery in international prices and improve producer incomes, we will be racking our brains to think of ways of finding resources to help to rescue millions of people worldwide from even greater social decline.

If consuming countries fail to cooperate in a decisive way, in a few years' time they will find themselves complaining because they no longer have the raw materials to maintain their roasting industry and because the poor quality of the little coffee available fails to satisfy even the least demanding consumers.

Solving the crisis is an international obligation that involves assuming joint responsibility and moving towards growing convergence of interests between producers and consumers.

I shall continue to be tireless in advocating the inclusion of coffee on the international political agenda. This Round Table is a step in the right direction. So is the growing concern of the US Congress, which supports initiatives for the United States to rejoin the Agreement and has adopted two resolutions urging the Bush Administration to take appropriate steps. Another positive development is the resolution of the European Parliament on the coffee crisis and its support for all the initiatives taken by the ICO to overcome the crisis. The resolution of the Dutch Parliament and the declarations of the Belgian Minister of External Relations are also very welcome.

It must be borne in mind that the solution to this problem is political rather than economic. In all forums, in the World Bank, the International Monetary fund, the multilateral banking system, the UNCTAD and other United Nations conferences, the WTO Ministerial Conference and the G-8 summits, we should all insist with one voice that if we wish to eradicate poverty we cannot remain indifferent to the tragedy of coffee.

Ladies and gentlemen;

We must recognize that the free play of market forces has dashed the hopes of millions of coffee growers worldwide. Promises of better prices and bigger incomes when quotas collapsed have never materialised. We are now facing the worst coffee crisis in history and possibly the most over-analysed of any commodity crisis: it has been diagnosed as a supply crisis, a price crisis, a possible technological crisis, possibly attributable to demand or profitability. But no single cause can account for a crisis of this nature and magnitude and it is even less possible to determine the major variable affecting the current coffee problem.

The fact is that we are experiencing a crisis of vision in which current problems go back to a period when ambition and lack of coordination were far more powerful than the international coffee community's capacity to build a collective future.

Producers and Consumers must act in a united and coordinated way to face up to this problem as we did so successfully in the past, putting aside their differences and seeking concrete solutions, even if these may seem bold. The solution is POLITICAL and we must be prepared to think what for many of us may now seem the unthinkable.

Thank you.