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Challenges and Opportunities for the Coffee Market: Responding to the Crisis

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Global Trends and Coffee

■ **Some Market Liberalization**

■ **But Developed Countries Protect their agriculture**

■ **Technological Change in marketing and processing**

■ **Technical change on farm**

- ✓ End of commodity market controls
- ✓ Producers getting a larger share of FOB prices
- ✓ Reduces developing country agriculture diversification possibilities
- ✓ More easily accessible information
- ✓ Ability to work with shorter supply chains
- ✓ Integrated supply chain management
- ✓ Improvements in yields and reduction in yield vulnerability



Global Trends and Coffee (con't)

■ **Economic Growth impacts on commodity production**

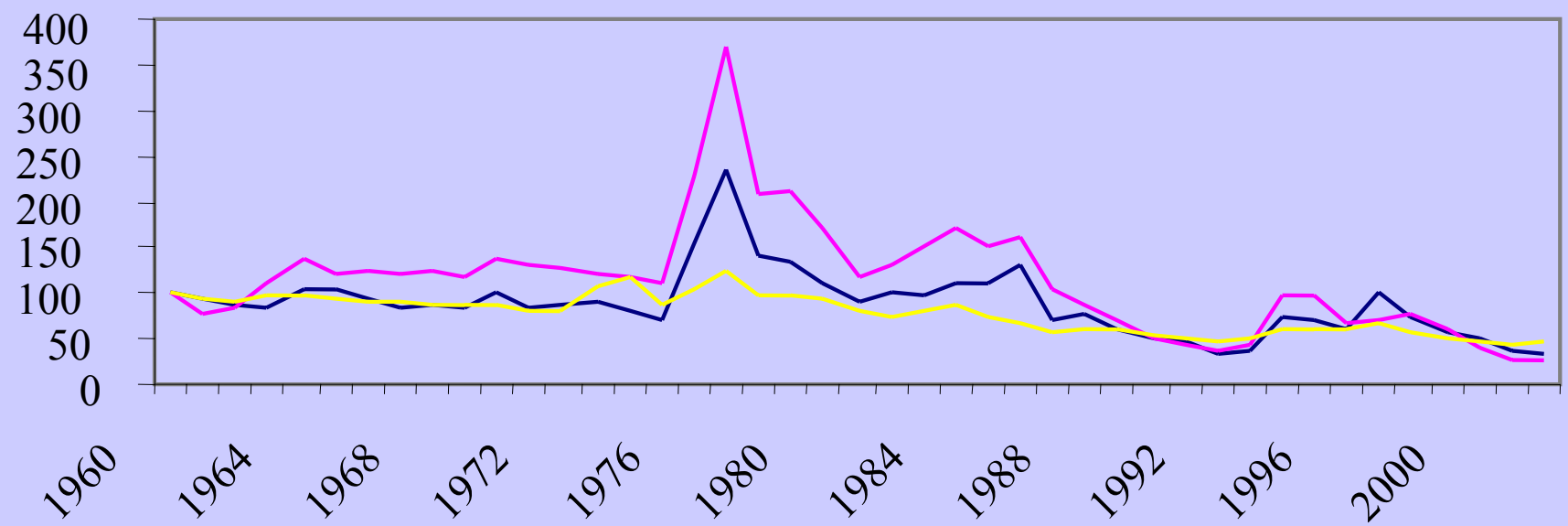
- ✓ Commodity production becoming less profitable in some countries as growth increases land and labor opportunity costs
- ✓ But offsetting impact of growth which increases demand for new coffee products

■ **Consumer preferences**

- ✓ Better informed consumers
- ✓ Specialty and convenience coffee products
- ✓ Health, social and environmental concerns in purchasing decisions
- ✓ Increasing importance/influence of retailers and supermarkets



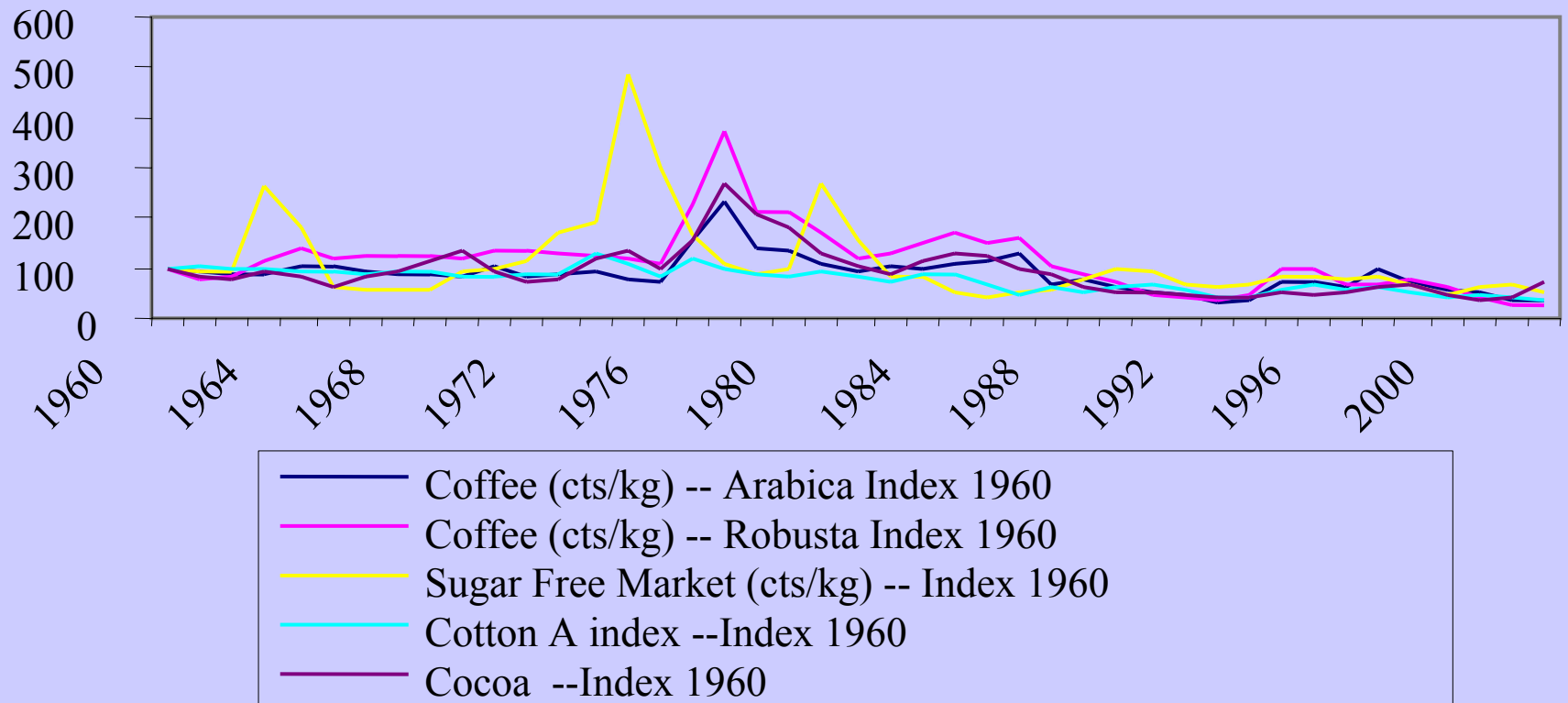
Coffee vs Agricultural Price Index 1960- 2002 in constant 1990 dollars (1990=100)



- Coffee (cts/kg) -- Arabica Index 1960
- Coffee (cts/kg)-- Robusta Index 1960
- Agricultural Price Index -- Index 1960

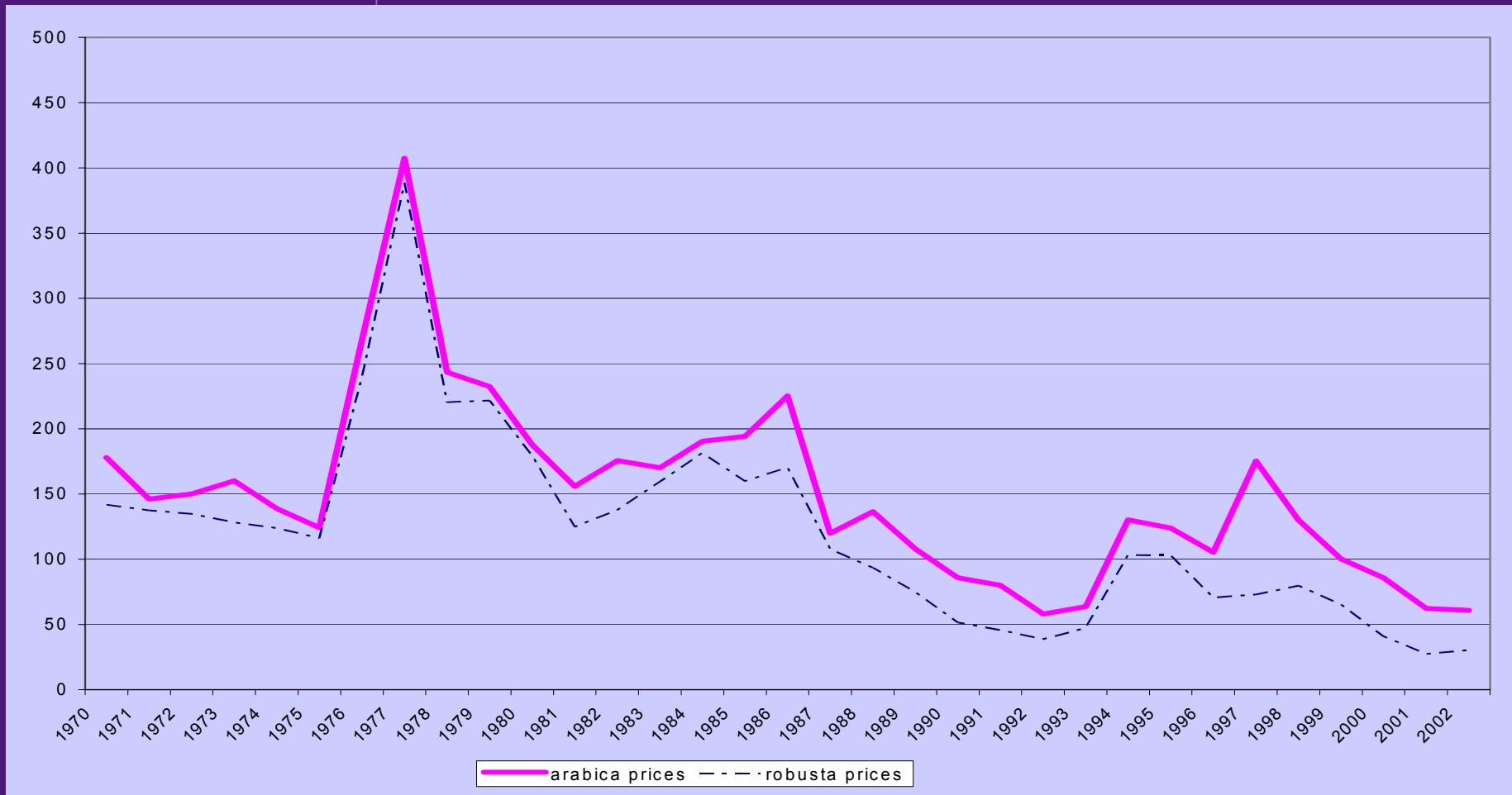


Coffee vs Sugar. Cotton. Cocoa 1960-2002 in constant 1990 dollars (1990=100)



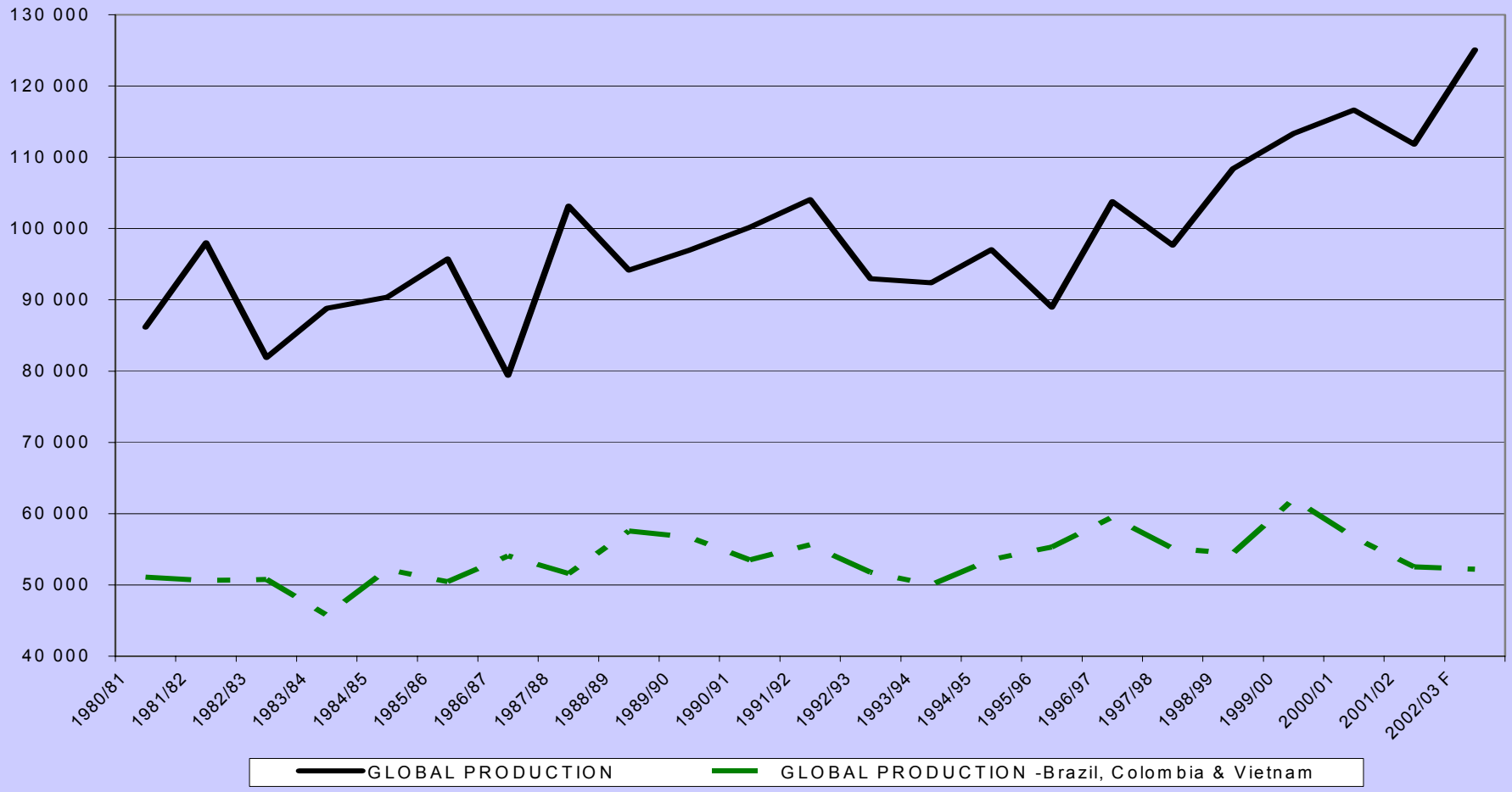


....as prices have naturally followed the long-run decline in marginal production costs that have occurred over time





**PARADIGM SHIFTS - SUPPLY:
GLOBAL COFFEE PRODUCTION AND BRAZIL, VIETNAM AND COLOMBIA (1980 –
2003); production increasing**

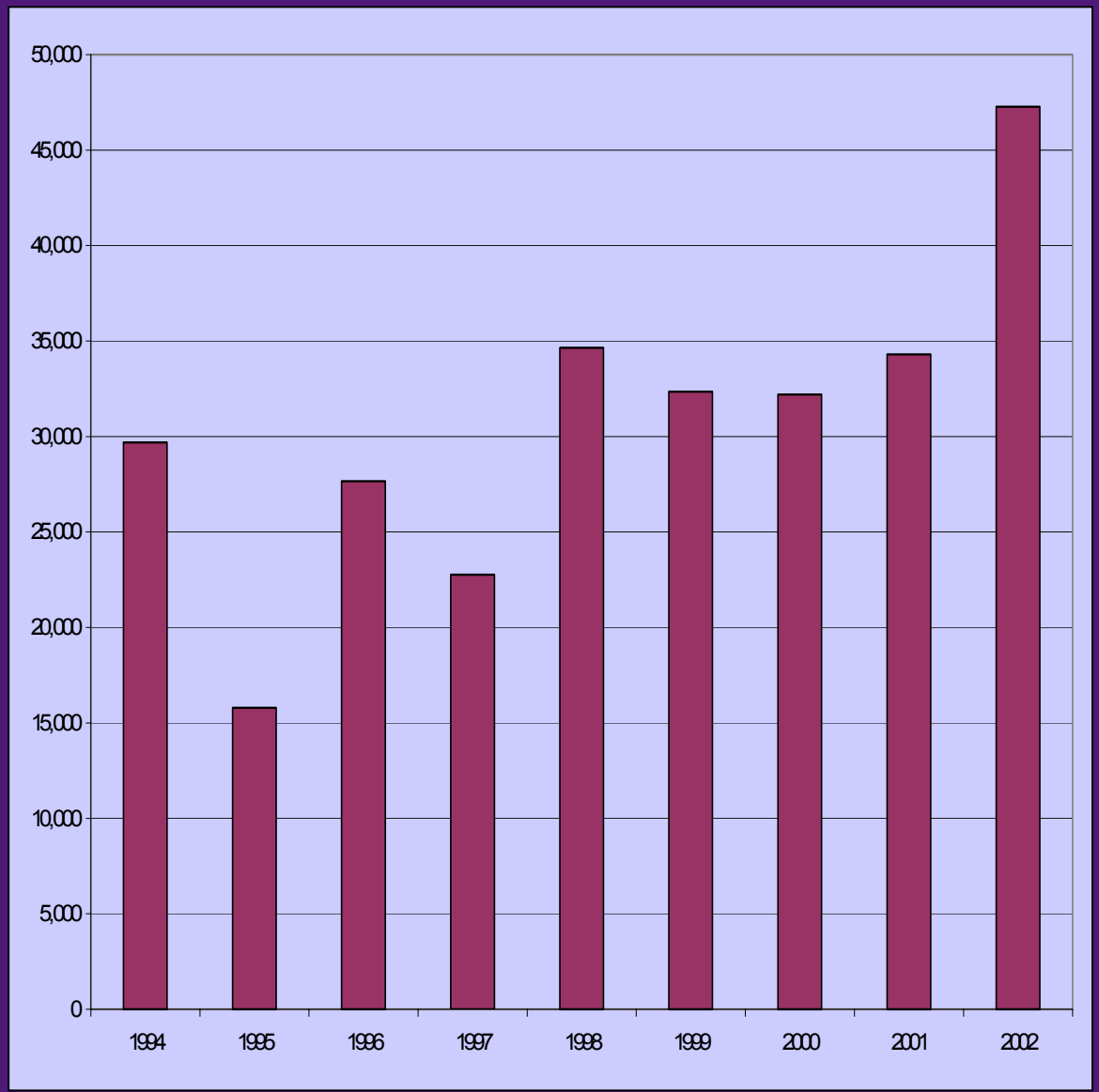


The “Big Three” Countries Now Account For 60% of Global Production



Brazil coffee production has increased— How and Why?

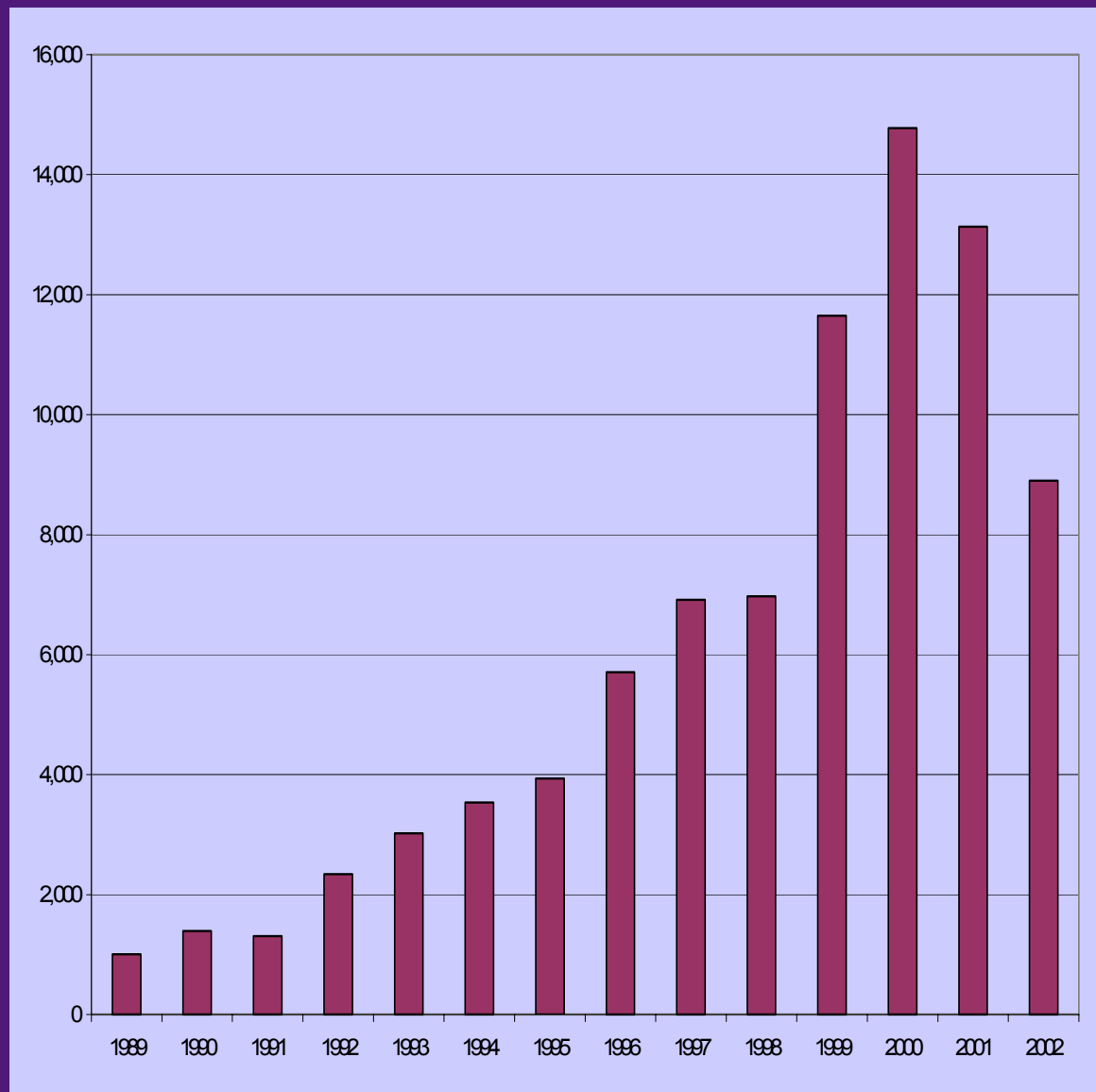
- Agronomic R & D
- Higher tree densities
- Mechanization
- Expansion away from frost zones to irrigated areas
- Conducive government policy
- Currency factors





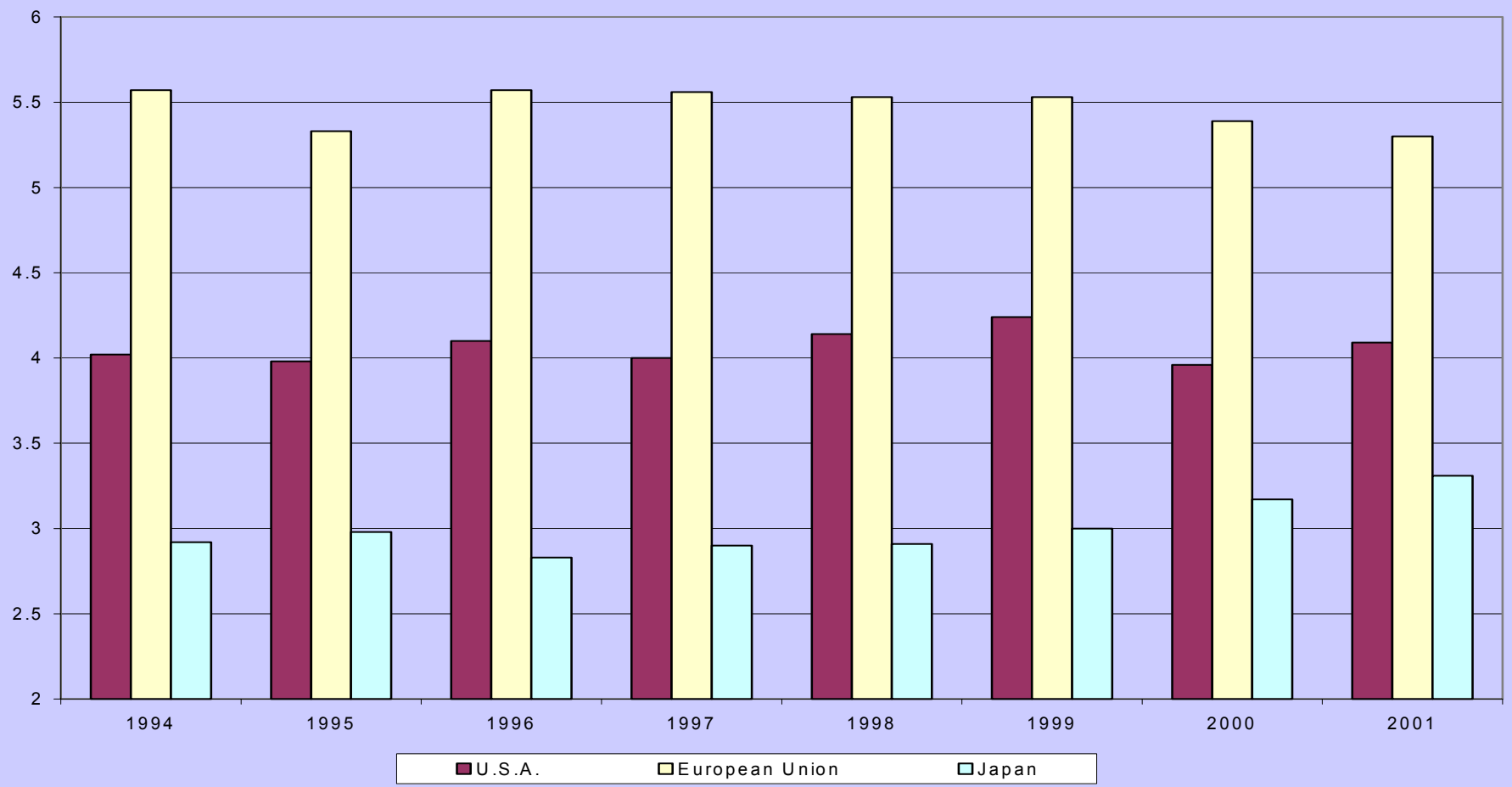
Vietnam production increase: How and Why?

- Unused land in productive areas
 - Low establishment costs
 - Low Production costs, particularly labor costs
 - Few government controls
- ...but very little multi-lateral financing



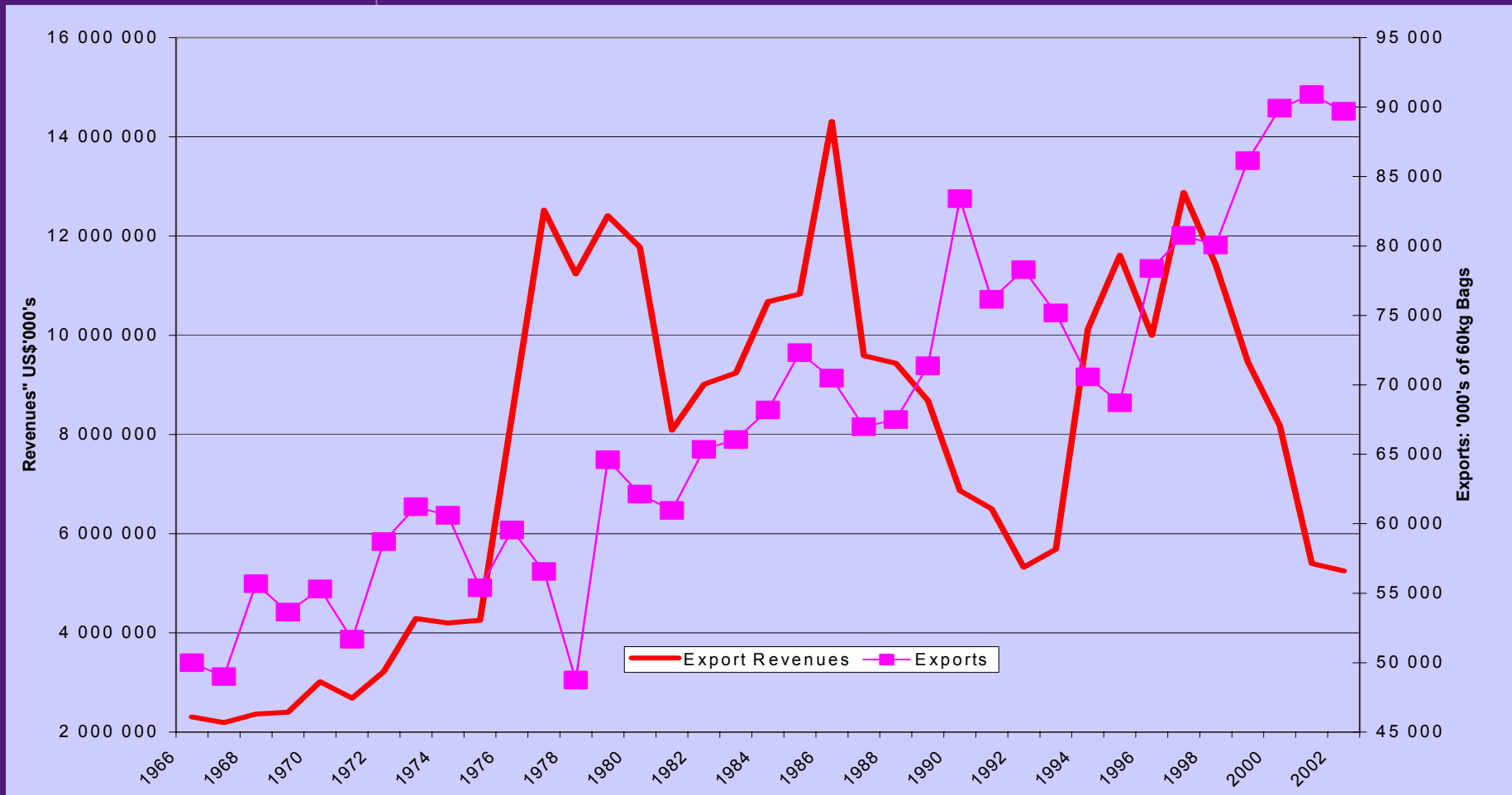


Paradigm Shifts in Demand – Almost no Growth of Total Demand Among Major Importers, except Japan





Export Revenues from Coffee have Slumped as Export Volumes Have Risen, and demand has stagnated





Impacts of the Coffee Crisis

- Loss of revenues
- Loss of employment
- Increase of poverty in coffee areas
- Possible negative impact on the environment
- Loan defaults—debt crisis
- Several coffee dependent countries suffer from BOP shocks: low coffee but high import prices, possibly raising the issue of debt sustainability



Incomplete Markets Adding To Producer Problems

- Lack of timely information
- Volatility makes correct policy responses difficult to assess and can widen trader margins
- Prices can over or under shoot “fair value” after large moves
- Concentration of industry
- Low bargaining power of many small farmers
- Lack of credit

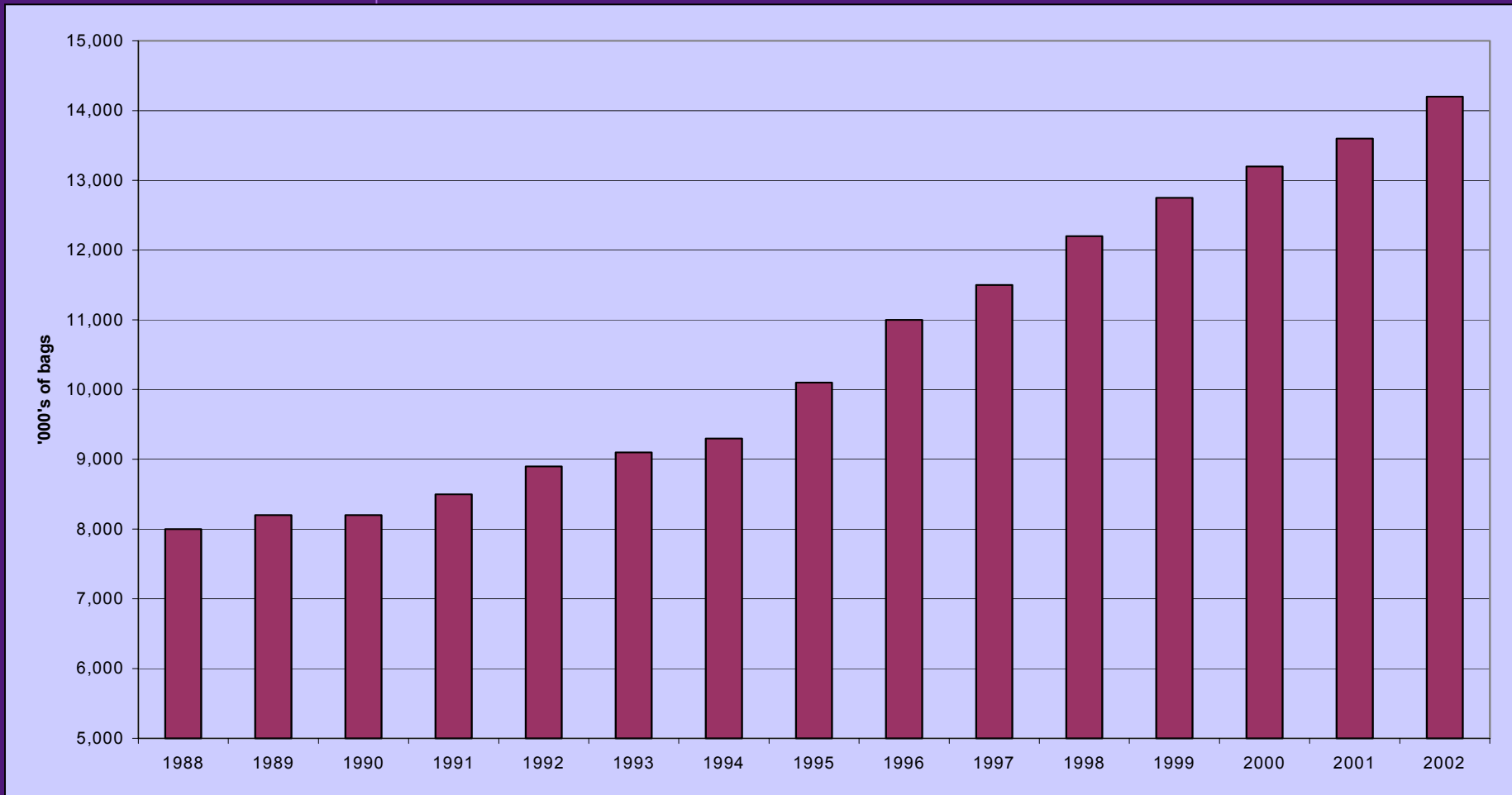


Seeking Solution in The Coffee Market

- Sustainable Sourcing Criteria for bulk Coffee
- Strengthening producers and their organizations
- Credit facilitation
- Risk management
- Expanding markets
 - Increase domestic consumption
 - New consumers within existing markets
 - New products
 - New markets (e.g. FSU, Asia, etc.)



Seeking Solutions: Example – Expanding Consumption in Producing Countries – the Success of Brazil





Seeking Solution: Other Ways Forward

- Fostering an enabling environment for broad-based and sustainable economic growth, including non-farm economic growth as alternative for farmers
- Expand investment in agriculture and rural development;
- Include coffee plan as part of a country's overall Rural Development agenda; diversify out of coffee
- Improve social well-being, gender equity, managing risk, and reducing vulnerability
- Better donor cooperation and harmonization
- Important to learn lessons of past and not fall back on non-market based controls and interventions