

## **Second World Coffee Conference**

Statement by the Commission in the name of the European Community

The EC approach on commodities and its views on how to ensure sustainability

Your Excellencies,

On behalf of Mr. Bernard Petit, Director at the Directorate-General for Development in the European Commission responsible for tropical agricultural commodities, including coffee, I wish first of all to convey his deepest regret at not being able to be present today at this important event as he had wished. Last-minute commitments with the Commissioner for Development, Mr. Louis Michel, prevented him from attending. He has requested me to convey his wishes for the successful outcome of this extremely important conference and his hope that at the end of our discussions we will be in a position to indicate new effective and sustainable ways of emerging from the long crisis that has afflicted the coffee sector.

The highly political nature of this Conference reflects the top priority accorded to the coffee sector by the exporting countries in general and Brazil in particular, as the world's leading producer. This is attested first and foremost by the presence of the President of our host country, H. E. Luiz Inácio Lula da Silva, as well as by all the other eminent Heads of State and members of Government who have honoured us with their presence. It is appropriate to acknowledge here that the exporting countries were the first victims of this long crisis in world market prices of coffee.

In terms of international trade figures, it is well-known that coffee is frequently the second most important product after oil and that the grave repercussions of the fall in market prices led directly and inevitably to an appreciable increase in poverty for the very large number of people in coffee-producing areas. 20-25 million families in more than 50 developing countries are affected. This is not acceptable since the fight against poverty has become the overarching objective in the Community's development policy. It is even less acceptable today, at a time when the United Nations has only recently hosted a high-level review of the progress achieved in the implementation of the Millennium Declaration and its development agenda. The conclusions of this important summit show that there is a genuine willingness to speed up the process in order to fulfil all these objectives by the year 2015.

The action of the European Union as the world's biggest donor in the area of development aid is in line with the logic of ensuring better control of globalisation in order to cushion its negative impacts and maximize its benefits by achieving a more equitable distribution of resources in a context of peace and stability.

Reducing world poverty by half between now and the year 2015 is, therefore, the major challenge for the next few years. The EU already provides 55% of the world's development aid. In Monterrey in 2002 and only recently at the Millennium Summit in New York, the EU strongly reaffirmed its willingness to contribute to achieving the Millennium Development Goals and undertook to increase its aid effort to a level of 0.56% of GDP in 2010, with a view to reaching a level of 0.7 % in 2015. The EU is also the most open of trading partners for the least developed countries (LDCs) and other low-income countries (LICs).

In many regions commodities are the main engine of economic development. Millions of people are heavily dependent on international trade in a single commodity that provides the main source of employment, income and foreign exchange earnings. Over the last 30 years prices for commodities such as sugar, cotton, cocoa and coffee have fallen by between 30% and 60%. If we want to achieve a real reduction in poverty through a commodity-based economy, a raft of measures applicable to the entire chain of the commodity involved will have to be implemented. In order to ensure that these measures are as effective as possible, they must be consistent with the principle and practice of sustainability. It is within this framework that the European Community has developed its approach.

In this statement we will examine the problems of coffee under three main headings, namely:

- Community policy on commodities in particular and development in general;
- The Community approach on sustainability, particularly as applicable to coffee;
- Community assistance and aid.

### **Coffee and Community policy on commodities**

As the Commission has often emphasized, coffee is not the object of a specific strategy or action plan. The Commission considered that, as in the case of other commodities, the improvement of producers' incomes and a reduction of their vulnerability required strategic approaches based on reducing the country's dependency, integrating both production and the macroeconomic level. The implementation of these national strategies through action plans makes it possible to identify priority actions and to ensure the political support they require. Coffee is no exception to this rule.

The European Commission believes that it is the task of the Governments of dependent countries to establish their own strategies to combat the decline in the sectors concerned and to cope with constantly-changing international markets. To this end, the Community insists on the need to take account of priorities relating to commodity chains in sectoral strategies (e.g. agriculture, transport) or multi-sector strategies (e.g. rural development) In this way, Governments could achieve synergies between the aid granted for food crops and the aid granted to commercial crops, between current production and possible replacement solutions, between the volume of investment in traditional producing sectors (commodities) and investment in regions having fewer resources. Such strategies also make it possible to take account of regional constraints and prospects and to include sustainable commodity chains as an important component of national poverty reduction strategies (PRS).

In April 2004 the EU Council ratified an action plan on commodities, emphasizing the joint nature of implementation through the instruments available to the Community and those managed by Member States, in order to act together in a “federative” manner. On the basis of the concepts indicated above, the proposed actions should concentrate mainly on the following areas:

- support for producing countries in the definition and implementation of strategies in the context of national plans, in particular NSPs;
- support for diversification (where possible), in particular through NSPs;
- access to risk management instruments;
- encouragement for all developed countries to support access to markets, in particular for the LDCs, on the example of the EU initiative known by its acronym, EBA (Everything but Arms). At unilateral level, the European Community will seek to improve the use of GSP;
- allocation of FLEX resources with a view to mitigating price fluctuations;
- increased cooperation between donors and international organizations (WB, FAO, UNCTAD, CFC) in order to provide better support for national strategies;
- development of strategies designed to promote sustainability in the commodity economic cycle.

For international cooperation with the major donors, the Commission considers that only by channelling resources at an integrated global level can provision be made for more effective intervention and financing of specific actions and programmes on commodities, including coffee. Community aid will therefore be destined to actions that meet the above general criteria and result from coordination at Government level on the one hand and international level on the other, preferably through the ICO. Direct foreign investment should also be promoted to support the improvement of producing sectors and the transfer of technologies.

### **Sustainability**

The EU is a consumer of coffee at a level of approximately 30-32 million bags a year. Once again, there is no specific policy as regards sustainability for the coffee sector but there are general rules and fundamental principles which aim to provide better and more reasonable incomes accompanied by more viable living conditions for commodity-producing countries.

The EU and its Member States continue to support sustainability based on the market, taking into account the responsibility of all the players involved and linked, in particular, to the adjustment of supply to demand. The more supply meets internationally agreed criteria the more demand will react positively. By optimizing their systems, farmers will also be able to achieve improved productivity throughout the chain.

At international level, the Community encourages all the players involved as well as the multinational companies working in the sector to conform to the guidelines of international organizations such as the OECD or ILO (International Labour Organization). There is, of course, backing for the various codes of conduct provided that these instruments are not used as

tools to replace national legislation and collective negotiation. Nowadays, particularly in the coffee sector, there is a proliferation of individual codes of conduct providing for relatively demanding standards, often accompanied by provisions designed to ensure adequate remuneration for farmers. These are all commendable initiatives which have the support of the Commission provided that they also have the endorsement of the sectors concerned through mutual recognition. Many companies and private sector organizations seek to draw up their own codes of conduct on matters related to labour, human rights and the environment within the framework of their own policies on social responsibility. Adoption of these codes should be encouraged provided that the entire production chain, both small and large operators, can genuinely profit from the implementation of the provisions concerned. These actions will not prove fruitful without a meaningful dialogue with the producing countries in order to identify joint priorities. In the case of coffee, the ICO must once again serve as a catalyst and platform for dialogue among all the players involved, including the private sector and the NGOs. This is why the Community action plan encourages a reflection on international commodity organizations with a view to identifying the paths to be followed in order to enable the EU to accompany these organizations in adapting to the all the new challenges.

The European Commission is committed to following an integrated approach for sustainable trade designed to promote sustainable production and consumption in order to sever the link between economic growth and environmental deterioration. To increase the chances of success, it will be necessary to maximize participation not only of the public and private sectors but also of the major multinationals. The World Coffee Conference is the new instrument we have at our disposal to facilitate this process. In June 2005, the European Council approved a statement that included among its key objectives environmental protection, greater social cohesion and equity, economic prosperity, promotion and protection of basic rights, and active participation by all social partners.

All the above considerations should help to improve the chances for achieving real sustainability in the coffee sector. Efforts will be in vain, however, if there is no international cooperation and an endeavour to constantly improve the quality of the products on offer. The European Community is still firmly convinced that a policy designed to achieve high-quality production is the appropriate means of halting the deterioration of the coffee market in the short and medium term. The European Community strongly regretted the replacement of ICO Resolution number 407 by Resolution number 420; we note with satisfaction, however that 16 of the major coffee-producing countries have fully complied with this Resolution and others are taking steps to do so. The volume of coffee exported by these countries accounts for 65% of the total volume marketed. The Community hopes that the rate of adhesion to the coffee-quality improvement policy will continue to increase, gradually encompassing most of the Robusta producing countries, which seem to be encountering greater difficulties at present. As already announced, the Community is ready to intervene by providing support for these countries, in particular its ACP partners.

## Community assistance and aid

The question of support, introduces the third part of this statement, namely Community aid.

The EU is now the world's largest donor providing funds totalling 36 billion euros in 2004, i.e. more than 55% of world ODA. The EU is also the main trading partner for the poor countries: 40% of its imports come from developing countries. Lastly, the EU is the main importer of agricultural products from developing countries, importing more than the USA, Japan and Canada combined. In the case of commodities, through the various STABEX budgets, the Community spent more than €489 million in the last three FED exercises. The most important beneficiaries were Ethiopia, Uganda, Rwanda, Sierra Leone, Tanzania, and Burundi. The fields of action are wide-ranging and cover all the sectors involved, including support for the private sector, diversification, research, infrastructure, rehabilitation of the coffee chain, and other specific activities. In the case of Sierra Leone, for example, the 4.5 million euros allocated for this year will make the Community the country's most important donor for coffee.

The approach of the Community in relation to sectoral aid (as in the case of coffee) centres on *three* major main principles and involves a close partnership with Governments and any other players involved. The *first* principle consists in the strengthening of decision-making capacities at the level of policies, strategies and sectoral expenditure; the *second* aims at reinforcing coherence between sectoral policy, expenditure and results in order to carry out overall assessment of the sector; and the *third* aims to minimise risks relating to the costs of the transaction. In this way, partner Governments will be in a position to produce a comprehensive programme for the sector concerned. This Sector Programme must include: 1) a sectoral and strategic policy document (e.g. PRSP); 2) a programme of expenditure and an annual budget, coupled with a system for monitoring results; and 3) active coordination among the donors in the particular sector concerned under the guidance of the beneficiary Government. It may be noted that the EC strategy puts the partner Government in the centre of the action, with responsibility for ensuring the effectiveness of the aid provided. In the field of coffee, it will be a priority for the needs of each Country to be notified to the National Authorising Officer responsible for including aid projects in the national development programmes (Poverty Reduction Strategy Papers - PRSP) mutually agreed with the EU institutions. The distributed version of this statement will include an Annex containing the general guidelines for support by the European Commission for sectoral programmes.

Presidents, Heads of State, Your Excellences, Ladies and Gentlemen,

This statement provides a brief overview of the approach followed by the European Community in relation to development and support for commodities, particularly for coffee. By tackling the major causes of poverty and world inequality, development makes a significant contribution towards the achievement of other important objectives of the EU's external action, for example long-term security. There can be no sustainable development without peace and security, and sustainable development is the best structural response to the major causes of conflicts and forced migrations.

It is within this framework that the development policy of the EU must be placed: it needs to be coherently articulated with other EU policies without being subordinated to these.

The European Commission is a political Institution, with specific responsibilities conferred by the various Treaties. The role of the Commission in development is to ensure its concrete intervention in the fields in which its action will be comparatively more effective rather than dispersing its activities, but always acting on the same plan and in harmony with its Member States.

The road to sustainable development is long and difficult but there is a firm worldwide commitment to achieving this end. A new dynamic must now be addressed and the EU is ready to play its role fully, together with the developing countries and all other major international players willing to cooperate.