

Second International Ethiopian Coffee Conference, Nov 4 2013

LADIES AND GENTLEMEN, It gives me immense pleasure to be here in the birthplace of coffee and I would like to take this opportunity to thank the Government of Ethiopia for its generous offer to host the next ICO World Coffee Conference 2015. A decision on this matter is expected to be taken at the next International Coffee Council Session in March 2014.

It also gives me great pleasure to pay tribute to my old friend, Mr. Arega Worku, the longest serving African delegate to the ICO, Chairman of IACO for over 20 years. Arega is still carrying on serving the coffee industry as Senior Advisor of MIDROC Ethiopia.

I would like to congratulate the Ethiopian Coffee Exporters Association who has put together this wonderful Conference. The Association was first established in 1969 by about a dozen members with the prime objective of encouraging the production of quality coffee; promoting coffee export globally; and resolving problems encountered collectively. Nowadays, the ECEA represents over 80% of Ethiopia's coffee exporters who make up over 96% market share of the Ethiopian coffee export. As a trade association which has been in the business for over four decades, it is the authentic coffee industry leader vested with the prime responsibility of promoting the Ethiopian coffee in the global market.

Now, let us begin by taking a quick look at the market, where we can see a sustained downward trend in coffee prices for nearly two and a half years now, without it being obvious at what point prices will stabilise. The monthly average of the ICO composite indicator fell by 7.5% in October to its lowest level since April 2009, and these decreases have been felt across all price groups, with the strongest drop last month observed in Robustas, hitting a 3 year low.

This is a worrying situation, as we are quickly reaching, or indeed have already reached, the point where the market price of coffee does not even cover the cost of production for many producers. This will have serious consequences not just for farmers, but also for the industry as a whole, as both the quantity and quality of supply will suffer once the current surplus comes to an end.

Total production in 2012/13 is around 145 million bags. In terms of consumption, growth in traditional importing countries has slowed to around 1%, however, demand in exporting countries and emerging markets is accelerating at 3-5% per year, and it is in these countries, particularly in the soluble market, where we see the most dynamic potential for coffee consumption.

So what we see, is a market characterised by a surplus that most likely will prevail into 2014/15, but at the same time, a healthy growth in demand that requires over 4 million bags a year of additional coffee available to consumers.

In view of this challenging situation, the ICO is more than ever fully committed to its goal towards a sustainable coffee sector. Operating as we do in a free market economy, *market transparency* is of vital importance for growers, traders and roasters alike, issues such as price volatility and economic uncertainty remain a crucial aspect of the ICO work plan. Focusing on risk management and economic sustainability has been at the forefront of the ICO's activities and will remain so. In this respect, we will endeavour to continue with our daily, monthly and quarterly monitoring of prices and statistical data to provide accurate and useful information to the market. However, I recognize that more is needed if we aim at tackling some of the root causes of market distortions and imbalances. This is why I have made market efficiency a priority issue from the outset of my tenure

as Executive Director. Today, I have chosen four specific key areas of work at the ICO that highlight the work that we do in that field:

In the first place, we are developing a joint partnership with the World Bank a study on Risk and finance in the coffee sector. This study will identify risks and constraints at different stages of the value chain; determine their impact on the availability and cost of finance; and propose, to the extent possible, potential remedial measures that could mitigate these risks. This is expected to improve the availability of finance and to reduce the cost thereof, because even though there is a direct link between risk and access to finance, often neither the potential borrower, nor the lender really understands the risks that attach to different stages of the coffee value chain. The study will be directed primarily at three different audiences: coffee producers, coffee trading enterprises and policy-makers. Finally, we hope that the study will improve the identification of major risks, and the means for managing such risks, across all the stages of the supply chain, and hence improving their attractiveness to lenders. Similarly, enabling lenders to better understand the risks facing the coffee sector, will allow them to better assess the credit worthiness of their clientele. An initial report of the study was presented at the Council Meetings last September, and a final version is expected by summer 2014.

This important study stems from the work carried out by the ICO's Consultative Forum on Coffee Sector Finance, now in its 3rd year, since it was created to facilitate consultations on topics related to finance and risk management in the coffee sector, with a particular emphasis on the needs of small and medium-scale producers and local communities in coffee producing areas. At its latest meeting, the Forum worked on the topic of aggregation and how farmer organisations can build capacity and enhance their access to finance.

With the support of 22 experts from five continents and a wide variety of institutions, from co-ops to donors, and from both the public and private sector, we explored strategies and barriers to farmer aggregation, and how best to support producer organisations in the world coffee market. We are confident that once finalised, the full report on aggregation will become a practical tool to help build the kind of producer associations that can better withstand the impact of the market.

Thirdly, as a result of the ICO's renewed commitment to establish itself as the statistical benchmark for the industry, we have begun an informal coffee round table on statistics with a selected group of leading analysts from industry and market research institutions, to discuss and compare our results in a spirit of collaboration. This is an on-going activity that will bear its fruit in the mid and long term, in as much as we see the ICO operating as a sort of clearing house where conclusive information on the consolidated figures on production, consumption, exports and stocks is released.

Fourth is: Climate Change: The ICO has aimed at establishing itself as a focal point of dissemination of relevant information on the challenges faced by the world coffee sector in the face of environmental concerns. In particular, we are paying special attention to the effects of climate change and its consequences on present and future supply. Whereas climatic effects have always been the main factor responsible for fluctuations of coffee yields in the world, climate change, as a result of global warming, is expected to result in actual shifts on where and how coffee may be produced in future. Several adaptation and mitigation strategies for coffee producers have been put forward in response to the challenges

facing the sector. Short-term adaptation strategies include improved farming practices and better post-harvest processing. Longer-term strategies, include, capacity-building, improved monitoring of climate data, enhancing soil fertility, introducing or preserving different production models, and developing drought and disease-resistant varieties. In more extreme cases, the solution may be to shift production to more suitable areas. Mitigation strategies include: calculating and reducing greenhouse gas emissions on the farm, and facilitating the creation of carbon sinks. What has been missing, however, is a practical and easily available source of information for farmers to adopt a hands-on approach to tackle the challenges of climate change. For this purpose, we are engaged in permanent dialogue with the *coffee & climate* initiatives: in an attempt to allow coffee farmers around the world a practical guide on adaptation to climate change and mitigation of its harmful effects.

I hope that this brief overview of the key areas of work of the ICO has conveyed to you my continued commitment to reform and enhance the activities of the organization, adapting to the needs of our current times.

It is also my earnest desire to invite experts on climate change, risk management and other relevant issues to the coffee industry to share their experiences and knowledge with the ICO so that with our concerted efforts we can tackle these issues effectively and to the good of the coffee industry. I am open to take on board new methodologies to improve our market outlook.

Thank you very much.