Coffee Growers Face Starvation, but Companies Thrive

Sabyasachi Mitra

World raw coffee prices are at a 30-year low. The market for one of the most valuable agricultural products in the world is plagued with an oversupply, with coffee output growing at a rate much faster than that at which demand for coffee is rising. According to the Oxfam report on the crisis facing the coffee growers, 'Mugged: Poverty in your coffee cup'[1], current global coffee supply is estimated to be about 8 per cent above demand. Supply of coffee has been growing at 3.6 per cent every year. Growth of demand is however about 1-1.5 per cent annually.

The crisis has been aggravated by the entry of new coffee-producing countries into the international coffee market. The need to earn foreign exchange has forced many countries into aggressively selling their export crops, with most having only one or two crops which has a demand in the international market. Vietnam, now the world's second largest coffee exporter, is one of them. Falling international prices of primary commodities have led these countries to produce and export more of these crops to prevent foreign exchange earnings from falling. In 1995 Vietnam produced less than 4 million 60-kg bags of coffee, with Brazil, Colombia, Indonesia, Mexico and Guatemala, all producing more coffee than Vietnam. Vietnamese companies supported the growers in driving up coffee production. Small farmers had often been encouraged to grow more coffee by governments eager to boost export earnings.

The over-expansion of robusta was in part due to rising demand for low-grade beans use in canned coffee. The boom in coffee prices in the mid-1990s induced many Vietnamese into coffee production. By 1999 Vietnam's coffee output had grown almost three-fold, to more than 11 million bags, second only to Brazil. It had surpassed Indonesia as the largest producer of robusta coffee. The maximum increase took place during the last year, with output rising from less than 7 million bags in 1998 to over 11 million bags in 1999. As a percentage of world coffee output Vietnam's share grew from 4.6 per cent in 1995 to 9.9 per cent in 1999.

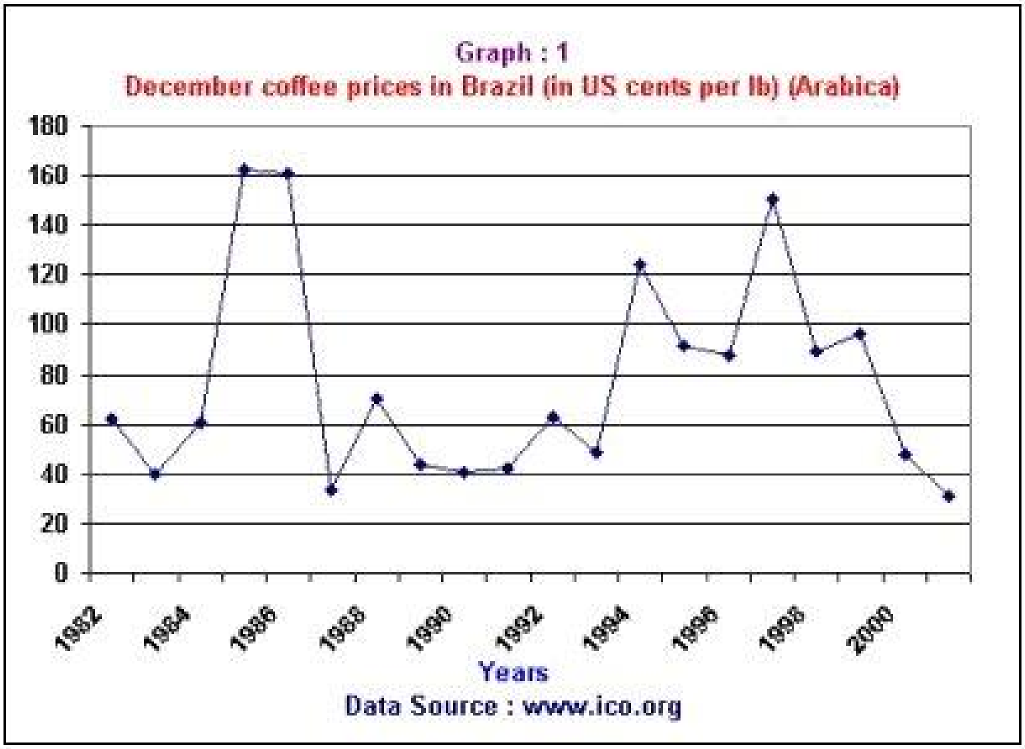
Several NGOs have claimed that the World Bank's loan programmes have encouraged Vietnam's agriculture sector to invest heavily in coffee production. The World Bank has however strongly denied that it had abetted the coffee crisis in Vietnam. And there is no direct evidence either to show that the Bank had directly provided loans for expansion of coffee cultivation in Vietnam. While the World Bank has been responsible for promoting neoliberal ideology among Vietnam's political elite and encouraging export-oriented agriculture, bilateral loans and 'aid' - particularly from Western European countries and Japan - have played a more significant role in financing Vietnam's coffee expansion. For example, the France Development Fund announced a US$40 million loan to Vietnam in 1998 to create 40,000 hectares of arabica coffee. This was done at the height of the coffee crisis, and while France said this would reduce output of robusta coffee in the country, the emphasis was still on export-oriented expansion of coffee plantations. The recent decline in arabica prices means that farmers who borrowed under this fund at a rate of VND15 million per hectare face financial difficulty even before coffee can be harvested, given that coffee plants take four to five years to mature.

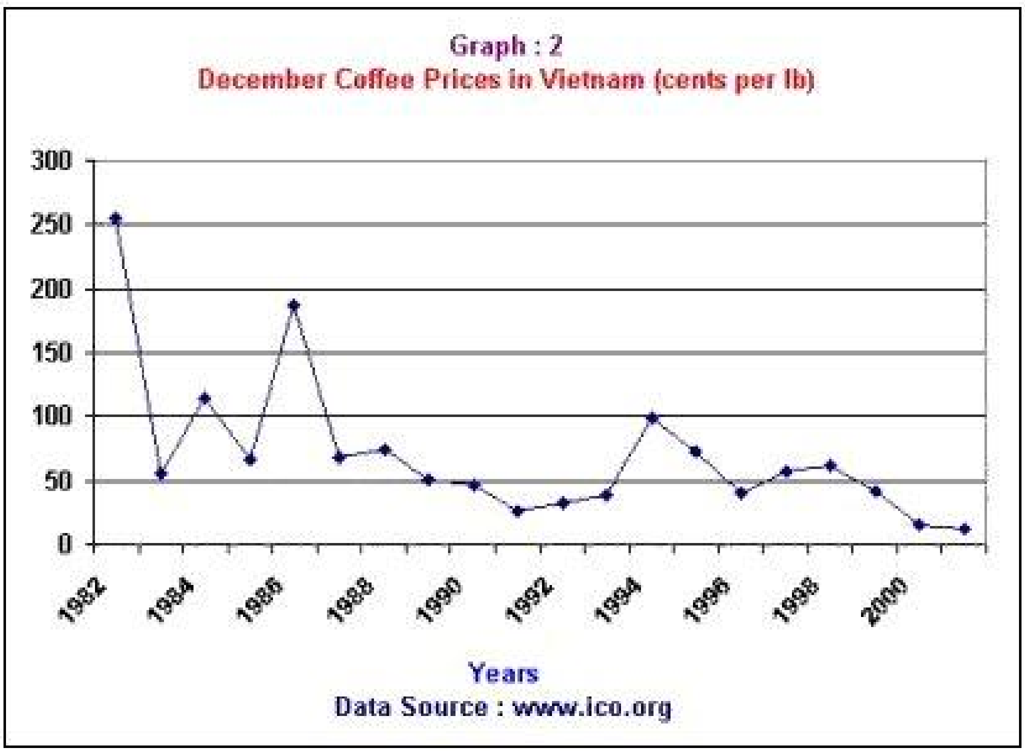
Coffee export rankings broadly follow production statistics. Between March 2000 and February 2001 Brazil exported more than 18 million 60-kg bags of coffee, while Vietnam exported just below 12 million bags. Vietnam accounted for more than 41 per cent of the robusta variety of coffee exported during this twelve-month period.

Even as coffee remains in Vietnam's top 10 exports, the Vietnam Coffee and Cocoa Association says they are now getting US $450 per tonne, while six years ago earnings per tonne was more than US $2000. According to a study conducted by Oxfam in Vietnam, central highland growers of coffee are earning only 60 per cent of their production costs. Coffee growers in Vietnam, who mostly grow the robusta variety, got only about 12 US cents per pound of the produce.

Coffee associations of countries like Hawaii have blamed Vietnam for the collapse in world coffee prices[2]. The president of Vietnam's Coffee and Cocoa Association, Doan Trieu Nhan has quoted the president of the World Coffee Council as calling Vietnam "the culprit of plummeting world coffee prices".[3] The Vietnamese government has strongly denied that with it lay the blame. It has refuted the allegation that Vietnam's overproduction has caused the glut of coffee and low prices in the world. Mr. Nhan has said that the Vietnamese Government has aided Vietnam's coffee growers in coming out of the crisis by helping farmers diversify their crops and get loans at low rates of interest.[4] Vietnam says that other countries also produce too much. Output in Brazil and Cote d'Ivoire more than doubled between 1995 and 1999. In Brazil coffee output rose from 15.8 million bags in 1995 to 34.5 million bags in 1998. In 1999 Brazil produced 32.4 million 60-kg bags of coffee. While production figures of Cote d'Ivoire did not exhibit any secular trend during 1995 to 1999, output of coffee in the country in 1999 (at about 5.5 million bags) was more than double the output in 1995 (at 2.5 million bags).

However, the point is not to make the problem one of inter-developing country competition. One of the reasons that the collapse in coffee prices has been so devastating for so many countries in the 'South' is that coffee exports are a crucial source of foreign currency needed to service external debt. Locked into the free trade and investment regime of the WTO and the structural adjustment policies of the World Bank and IMF, these countries are forced to go in for export-oriented agriculture in order to facilitate debt repayment. Failure to meet debt repayment deadlines merely places the governments of these countries under greater control of the transnational banks and the IMF.





According to a piece on the website of Focus[5], in many countries, Vietnam being one of them, many coffee farmers are indebted to private lenders and traders who charge high interest rates and seek repayment in the form of land or coffee. As a consequence farmers are prevented from diversifying their crops. Given the long period it takes for coffee trees to reach harvesting age, coffee growers are forced to intensify the use of fertilisers and raise production to try to meet debt repayments even as coffee prices collapse. The result is usually bankruptcy.

While prices paid to coffee growers have fluctuated since the 1980s, it has reached rock-bottom rates during the last couple of years or so. Brazilian coffee growers were getting around 30 US cents every pound of arabica coffee during the latter half of 2001. Robusta growers in the country were getting only around 15 US cents per pound during the said period. Only as late as in January 1998 coffee growers in Brazil were receiving about 162 US cents per pound of arabica coffee and almost 105 US cents for an equal quantity of coffee of the robusta variety. The graphs above show how year-end prices of robusta in Vietnam and arabica in Brazil had fared during the last two decades in these two countries.

Ethiopian growers of arabica coffee, known to be among the best quality coffee in the world, are also suffering from a similar fate. In January 1998 a pound of Ethiopian arabica coffee fetched the growers more than 144 US cents. In December 2001 it fetched only a little over 31 US cents. In El Salvador the drop in coffee prices, combined with the devastation caused by the January 2001 earthquake, left more than 30,000 coffee workers unemployed. In East Timor income from coffee production fell by 35%, affecting 40,000 families who rely directly on coffee growing for their livelihood. In Indonesia the selling price for a kilogram of coffee beans fell to Rp.3,000/kg, more than the cost of production at Rp.4,000/kg.

The blame-game is however not going to help coffee growers. The coffee crisis has highlighted the risk for developing countries of playing in the big league of world markets. Surplus production is not the sole problem the producers are facing. Quality of the coffee being produced is also a major problem, as are inadequate marketing and agricultural services. Poor households also lack the flexibility to cope with global fluctuations. While between seven and ten million farmers make a living from growing coffee, which often makes up about three-quarters of the export earnings of some countries, many of the coffee growers work on small farms. These small farmers cannot increase coffee production at will to take advantage of periods when coffee prices are high. However, when coffee prices are low they are affected badly as they can barely sustain themselves with the amount they get by selling their produce in such years. Falling prices are leading to lower investment in coffee cultivation and thus to a fall in the quality of the coffee that is being produced.

But despite all talks of a glut in the market for raw coffee, there appears to be little prospect of an agreement between worldwide coffee growers to limit production. The first International Coffee Agreement (ICA) was signed in 1962 and it had most of the coffee producing as well as consuming countries as members. During the 27 years of survival of this agreement a target price (or a price band) for coffee was set, and export quotas were allocated to each producer. If prices exhibited an upward trend the quotas were relaxed, when prices slumped quotas were tightened. The Agreement survived all these years despite problems because of a number of reasons:

- Participation of the consuming countries,
- The governments of producing countries being in control of decisions concerning exports, and
- Brazil's acceptance of a shrinking market share.[6]

However there was constant tension among members of the ICA over quotas. Besides there was an increase in the volume of coffee traded with (or through) non-member importing countries at lower prices. In addition, the increasing shift from soluble instant coffee (using robusta) to ground coffee (using a higher proportion of arabica) in the US during the 1980s made the export allocation made under the then existing quota system unrealistic to be maintained. All these contributed to the collapse of the ICA in 1989.

The collapse of the ICA regime led to a shift in balance of power in the coffee chain in favour of the operators based in coffee consuming countries, mostly countries in the North (and their agents in the producing countries), from farmers, local traders and governments in producing countries, located mostly in the South. Prices of raw coffee have plummeted and a higher proportion of the income from coffee sales is accruing to operators in the North. Coffee prices during 1990-93 were only 42 per cent of those during 1985-88. Even during 1994-97, when coffee prices rose (because of frost and drought in Brazil in 1994-95 and speculation in 1997), the average price was 20 per cent below the average price during 1985-88.

The coffee bean cartel, the Association of Coffee Producing Countries (ACPC), was formed in London in 1993 by many coffee-producing countries to control the price of coffee by adjusting supply, as the Organisation of Petroleum Exporting Countries (OPEC) does to control the prices of crude oil. For example, most coffee producing countries agreed in May 2000 to retain 20 per cent of their production from October 1, 2000 in an effort to drive up coffee prices as long as the 15-day moving average of the ICO composite price indicator stayed below 95 cents per pound. Members of ACPC accounted for 70 per cent of the global coffee supply. However as long as production is rising the retention scheme may not have the desired effect on world coffee prices. Besides, the entry of more players, not all of who became members of the cartel, into coffee production in recent years further prevented any reversal in the downswing of coffee prices. The association shut down in January this year after failing to stem the downward movement of international coffee prices. Many member countries have not been even able to pay the fees that allowed the cartel to operate. The association hopes to resume operations once coffee prices recover and members are in a position to pay their dues again.

Prior to the closing down of the cartel Brazil decided to abandon the scheme alleging that only Brazil and Colombia had played by the rules of the agreement that was signed last year. The world's largest producer had retained more than 170,000 tonnes of coffee since the start of the scheme. Brazil said that non-compliance by members with the cartel's production levels has been a major reason behind the closure of the association.

Things need to change if the quality of the coffee that is being grown has to be maintained. With constantly falling prices there is now little incentive left for growers to invest in producing better quality coffee. Many, particularly in Colombia, are even switching to growing coca the leaf from which cocaine is produced. Thus the current coffee crisis is encouraging farmers in some countries to return to producing illegal drugs.

Steps are being suggested to invest in propagating the culture of having a cup of coffee to increase consumption. Another suggestion being made is to be a part of the specialty coffee market, where producers enjoy relatively better relationships with their customers and often have long-term contracts at fixed prices. Many have now agreed to cut back on production and destroy part of the low-grade coffee they have produced, hoping that these would raise ailing coffee prices.

However, the problem is not just of unremunerative prices of coffee. One could have understood it to be the case if even the final product had witnessed a drop in prices. But while prices of raw coffee have dropped, consumers have seen little difference in the price of coffee in shops and cafes. The Oxfam report says that the price of raw coffee exported from producer countries accounts for less than 7 per cent of the eventual cost of coffee to consumers in the West. The rest, over 90 per cent goes to coffee processors and retailers in rich countries. The increased profits at Nestle, the giant Swiss instant coffee processor, and at Starbucks, the American coffee shop chain, are strong evidences testifying to this fact. Today's standardised coffee blends are often a mix of as many as 20 different types of coffee. Coffee companies buy them from the lowest-cost producers and mix these blends.

Roaster companies need to pay the coffee growers better prices. Oxfam has called for an internationally-agreed minimum price of US $1 per pound almost twice the current prices. Also these companies should pay for the creation of a fund to help poor growers to diversify, thereby reducing their dependence on coffee. The amount of coffee the companies buy under Fair Trade conditions should rise. Without some immediate measures being taken, the coffee crisis, as Oxfam puts it, will become 'a development disaster whose impacts will be felt for a long time'.

---

[1] http://www.maketradefair.com/stylesheet.asp?file=16092002163229

[2] http://www.hawaiicoffeeassoc.org/2_20_2002_minutes.htm

[3] http://www.taipeitimes.com/News/archives/2001/08/12/0000098253

[4] http://news.bbc.co.uk/1/hi/world/asia-pacific/2265410.stm

[5] Gerard Greenfield (March 2002): Vietnam and the World Coffee Crisis: Local Coffee Riots in a Global Context (http://www.focusweb.org/publications/2002/Vietnam-and-the-world-coffee-crisis.html)

[6] Stefano Ponte (2001): The 'Latte Revolution'? Winners and Losers in the Restructuring of the Global Coffee Marketing Chain; CDR Working Paper 01.3; Copenhagen.