Photo: Rupert Elvin

MUGGED

Poverty in your coffee cup

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SUMMARY

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There is a crisis destroying the livelihoods of 25 million coffee producers around the world. The price of coffee has fallen by almost 50 per cent in the past three years to a 30-year low. Long-term prospects are grim. Developing-country coffee farmers, mostly poor smallholders, now sell their coffee beans for much less than they cost to produce – only 60 per cent of production costs in Viet Nam's Dak lak Province, for example. Farmers sell at a heavy loss while branded coffee sells at a hefty profit. The coffee crisis has become a development disaster whose impacts will be felt for a long time.

Families dependent on the money generated by coffee are pulling their children, especially girls, out of school. They can no longer afford basic medicines, and are cutting back on food. Beyond farming families, coffee traders are going out of business. National economies are suffering and some banks are collapsing. Government funds are being squeezed dry, putting pressure on health and education and forcing governments further into debt.

The scale of the solution needs to be commensurate with the scale of the crisis. A Coffee Rescue Plan, which brings together all the major players in the coffee trade, is needed to make the coffee market benefit the poor as well as the rich. This is about more than coffee. It is a key element in the global challenge to make trade fair.

The coffee market is failing. It is failing producers on small family farms for whom coffee used to make money. It is failing local exporters and entrepreneurs who are going to the wall in the face of fierce international competition. And it is failing governments that had encouraged coffee production to increase export earnings.

Ten years ago producer-country exports captured one-third of the value of the coffee market. Today, they capture less than ten per cent. Over the last five years the value of coffee exports has fallen by US$4bn; compare this with total debt repayments by Honduras, Viet Nam, and Ethiopia in 1999 and 2000 of US$4.7bn.

The coffee market will also, arguably, end up failing the giant coffee-processing companies, at present so adept at turning green beans into greenbacks. The big four coffee roasters, Kraft, Nestlé, Procter & Gamble, and Sara Lee, each have coffee brands worth US$1bn or more in annual sales. Together with German giant Tchibo, they buy almost half the world's coffee beans each year. Profit margins are high – Nestlé has made an estimated 26 per cent profit margin on instant coffee. Sara Lee's coffee profits are estimated to be nearly 17 per cent – a very high figure compared with other food and drink brands. If everyone in the supply chain were benefiting this would not matter. As it is, with farmers getting a price that is below the costs of production, the companies' booming business is being paid for by some of the poorest people in the world.

Paying prices as low as they can go – whatever the consequences for farmers – is a dangerous business strategy in the long term. And even in the short term it does not help the business interests of the producers of instant coffee. It is particularly risky given that these companies depend on the goodwill of consumers. The rise of Fair Trade sales in recent years has demonstrated that consumers care about the misery of those who produce the goods they buy.

The coffee industry is in the process of a radical and, for many, extremely painful overhaul. It has been transformed from a managed market, in which governments played an active role both nationally and internationally, to a free-market system, in which anyone can participate and in which the market itself sets the coffee price. Recently this has brought very cheap raw material prices for the giant coffee companies.

At the same time, Viet Nam has made a dramatic entry into the market and Brazil has increased its already substantial production. The result is that more coffee is being produced and more lower quality coffee traded, leading to a cataclysmic price fall for farmers. Eight per cent more coffee is currently being produced than consumed. In the meantime coffee companies have been slow to comply with what one of them identified as being their core responsibility within the current crisis: the generation of demand for coffee. The current growth rate of 1-1.5 per cent per year in demand is easily outstripped by a more than two per cent increase in supply.

Despite the stagnant consumer market, the coffee companies are laughing all the way to the bank. In the free market their global reach gives them unprecedented options. Today's standardised coffee blends may be a mix of coffees from as many as 20 different coffee types. Sophisticated risk management and hedging allows the companies, at the click of a computer mouse, to buy from the lowest-cost producer to mix these blends.

At the other end of the value chain the market does not feel so free. Without roads or transport to local markets, without technical back-up, credit, or information about prices, the vast majority of farmers are at the mercy of itinerant traders offering a 'take it or leave it' price. Their obvious move out of coffee and into something else is fraught with problems. It requires money that they don't have and

alternative crops that offer better prospects. For a farmer to turn her back on the four years spent waiting for coffee trees to start bearing fruit is a highly risky strategy.

The coffee-market failure is also, in part, a result of stunning policy failure by international institutions. The World Bank and the IMF have encouraged poor countries to liberalise trade and pursue export-led growth in their areas of 'comparative advantage'. The problem for many poor countries is that the advantage can be very slim indeed – as the flood of coffee and other primary agricultural commodities onto global markets shows. These countries are stuck selling raw materials that fail, utterly, to capture the value added by the time the product hits the supermarket shelves.

Even within the free coffee market, these institutions can be charged with dereliction of duty. Where was the sound economic advice to developing countries on overall global commodity trends, and their likely impact on prices? What urgent steps are donor governments taking to ensure that efforts to create a more manageable debt burden for the poorest countries are not undermined by commodity shocks?

Until now, rich consumer countries and the huge companies based in them have responded to the crisis with inexcusable complacency. In the face of human misery, there have been many words yet little action. Existing market-based solutions – Fair Trade and the development of specialty coffees – are important, but only for some farmers. They can help poverty reduction and the environment. However, a systemic, not a niche solution, is needed.

The challenge is to make the coffee market work for all. The failures of previous efforts at intervention in the market must be understood and lessons learned. But so too must the lessons of the moment. The low coffee price creates a buyers' market, leaving some of the poorest and most powerless people in the world to negotiate in an open market with some of the richest and most powerful. The result, unsurprisingly, is that the rich get richer and the poor get poorer. Active participation by all players in the coffee trade is needed to reverse this situation.

The next year is critical. Coffee-producing governments have agreed a plan that aims to reduce supply by improving the quality of coffee traded. This will only work if it is backed by the companies and by rich countries and is complemented by measures to address long-term rural underdevelopment.

Oxfam is calling for a Coffee Rescue Plan to make the coffee market work for the poor as well as the rich. The plan needs to bring together the major players in coffee to overcome the current crisis and create a more stable market

Within one year the Rescue Plan, under the auspices of the International Coffee Organisation, should result in:

1. Roaster companies paying farmers a decent price (above their costs of production) so that they can send their children to school, afford medicines, and have enough food.
2. Increasing the price to farmers by reducing supply and stocks of coffee on the market through:
   - Roaster companies trading only in coffee that meets basic quality standards as proposed by the International Coffee Organisation (ICO).
   - The destruction of at least five million bags of coffee stocks, funded by rich-country governments and roaster companies.
3. The creation of a fund to help poor farmers shift to alternative livelihoods, making them less reliant on coffee.
4. Roaster coffee companies committing to increase the amount of coffee they buy under Fair Trade conditions to two per cent of their volumes.

The Rescue Plan should be a pilot for a longer-term Commodity Management Initiative to improve prices and provide alternative livelihoods for farmers. The outcomes should include:

1. Producer and consumer country governments establishing mechanisms to correct the imbalance in supply and demand to ensure reasonable prices to producers. Farmers should be adequately represented in such schemes.
2. Co-operation between producer governments to stop more commodities entering the market than can be sold.
3. Support for producer countries to capture more of the value in these commodities.
4. Financed incentives to reduce small farmers' overwhelming dependence on agricultural commodities.
5. Companies paying a decent price for all commodities, including coffee.

“The coffee farmers of Latin America are suffering the worst crisis in a hundred years. I urge everyone concerned with this growing misery to read this report. I hope you will use it to promote action to stop the scandal of hard-working coffee farmers falling further into poverty because of the price which the transnationals pay.”

Raúl del Aguila, Junta Nacional del Café de Perú (Peruvian Coffee Farmers’ Organisation)

“The urgency of the coffee crisis cannot be overstated. 25 million coffee farmers are dependent on governments, companies, coffee cooperatives, trades unions and NGOs coming together to solve the problem of the price collapse.

The International Coffee Organisation welcomes Oxfam’s campaign which makes an important contribution to this search for solutions.”

Néstor Osorio, Executive Director, International Coffee Organisation

“If a few companies were less greedy, the people at the bottom would have a lot more. We can do our bit by pressuring politicans to change this insanity, and by buying Fair Trade coffee. I hope people will back Oxfam’s campaign to Make Trade Fair”.

Chris Martin, UK rock band, Coldplay

Photo: Rupert Elvin

Oxfam’s programme with coffee producers

Oxfam provides over $1.6m of support annually to a range of development programmes in coffee-producing regions – in Central America, Mexico, and the Caribbean, in South America, the Horn and East Africa, and East Asia. These programmes seek to strengthen the position of poorer coffee farmers in the market by increasing their business and technical skills and supporting their research, advocacy and campaigning. They also include help to small farmers to diversify out of coffee, and to enhance the quality of their coffee.

Oxfam works in partnership with the Fair Trade movement, which has brought significant benefits to poor coffee farmers around the world. Oxfam has supported Fair Trade networks that have developed in several regions with the aim of empowering producers and addressing the wider trade-policy agenda.

Oxfam International is a confederation of twelve development agencies that work in 120 countries throughout the developing world: Oxfam America, Oxfam-in-Belgium, Oxfam Canada, Oxfam Community Aid Abroad (Australia), Oxfam GB, Oxfam Hong Kong, Intermón Oxfam (Spain), Oxfam Ireland, Novib Oxfam Netherlands, Oxfam New Zealand, Oxfam Quebec, and Oxfam Germany.

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