

Europe and the Coffee Crisis

A Plan for Action

The European Union has the resources and policies to make a positive difference to 25 million poor families suffering from the collapse in world coffee prices. All it needs is the political will. The European Commission should: use €750m of undisbursed aid to compensate poor countries for the crisis; assist the International Coffee Organisation in monitoring coffee quality; increase aid to boost coffee farmers' market power, or help them move to other crops; revise tariff rules; and aid the destruction of below-standard stocks.

Summary

'When it is said that the bulk of the world's poverty is in rural areas, people sometimes forget to specify that this is in large part due to the volatility of primary product prices and their long-term decline...

'There is on the question of commodities a sort of conspiracy of silence. The solutions are not simple... But nothing justifies the present indifference.'

President Jacques Chirac of France, 21 February 2003¹

The recent collapse of world coffee prices was a disaster, for more than 25 million poor families. The crisis is now so deep that it is contributing to widespread hunger.

The International Coffee Organisation (ICO) is addressing the crisis with plans for a Quality Improvement Programme and proposals to help hard-hit coffee farmers to find other sources of livelihood.

For its part, the European Union has both the power to influence events and the appropriate combination of aid and trade policies to provide sustainable solutions to the crisis. Oxfam welcomes the recent high-level expressions of concern about the problems facing coffee-dependent countries, and the Council's and the European Commission's stated support for the ICO's quality-improvement programme.

There is now an urgent need for action from the EU to assist countries and coffee farmers damaged by the crisis. Unspent EU aid money is available, and Development Commissioner Nielson has promised its reallocation for appropriate purposes. Oxfam believes that addressing the coffee crisis is just such a purpose.

Oxfam therefore makes the following proposals:

- The EU should make available a further €750m in immediately disbursable payments to all countries of the African, Caribbean and Pacific group which are affected by the coffee crisis, in proportion to their needs.
- Under development co-operation, the EU should increase aid resources to support coffee farmers and workers. Farmers should be helped with rural diversification, market intelligence, development of co-operatives, expanded extension advice, better access to credit and agricultural inputs, and a scheme to help farmers to make the most of premium coffee-market niches. The EU should also assist short-term stock destruction.
- In the area of international trade, Oxfam recommends that the EU should support the ICO's Quality Improvement Programme with independent monitoring of coffee that enters the European market. It should remove all its remaining tariffs on processed coffee products and end all dumping of subsidised exports, which prevents poor farmers from moving out of coffee into other products. Furthermore, it should ensure that such practices are rapidly outlawed under the current Doha Round of world trade talks.

1 The coffee crisis

Today's crisis on the coffee market leaves more than 25 million poor families facing ruin, unable to put enough food on the table, send their children to school, or buy the most basic medicines. In coffee-growing countries as diverse as Ethiopia, Nicaragua, and Vietnam, people are at pre-starvation limits. And authorities in Central America have voiced concern about the dangers of social, economic, and political instability which arise from the crisis.²

The coffee trade has played a vital role in development. Approximately 70 developing countries produce and export coffee, and of this, 70 per cent of it is grown by smallholder farmers. It is the biggest source of foreign exchange for some of the poorest countries, providing in good years nearly 80 per cent of export revenues in the case of Burundi, and 70 per cent in that of Ethiopia.

But these are not good years. The prices that poor farmers used to get for their coffee have collapsed. The main internationally quoted price, for arabica coffee on the New York Coffee, Sugar and Cocoa Exchange, dipped below US\$1 per pound briefly only once during the 1980s, and in both 1977 and 1997 it peaked at over \$3 per pound during Brazilian frost scares. But in 2001 it fell to 42 cents a pound. In the final quarter of 2002 it rallied to 70 cents, only to fall back by the end of the year. Plummeting prices mean that producer countries cannot sustain spending on health and education or pay international debts, while their national banks go bankrupt.

The share of final prices received by farmers for unprocessed 'green beans' has fallen dramatically, from 64 per cent of the US retail price in 1984 to just 18 per cent of that price in 2001.³ Oxfam research in 2002 discovered that Ugandan coffee farmers received just 2.5 per cent of the retail price of their coffee sold in the UK. Yet meanwhile, the international companies that dominate both trading and roasting of coffee make giant profits. Nestlé's operating margin on instant coffee is estimated at 26-30 per cent of the final retail price.⁴ This reflects the growing concentration of the retail market in the big roasters' hands. Any solution to the coffee crisis must increase the farmers' share of market power.

The coffee crisis now demands concerted international action. Yet rich-country governments have stood by and ignored suffering which would never be tolerated if it affected their own citizens. The World Bank and UNCTAD, the global institutions charged with making commodity markets work for development, have taken no more than preliminary actions so far.

Consequently, in September 2002 Oxfam and the Global Alliance for Commodities and Coffee jointly proposed a Coffee Rescue Plan, with a series of measures aiming to:

- Restore the balance of supply and demand
- Restore quality and raise productivity
- Raise prices, revive livelihoods
- Retain and build value-added capacity, and
- Establish real alternatives for rural development.

This paper investigates how the European Union can help to realise those aims.

2 Mainstream aid solutions for coffee

The International Coffee Organisation (ICO) has already created some constructive responses to the coffee crisis, and the EU's support for them has been most welcome. They are based on the following measures:

- a Quality Improvement Programme (QIP) to raise the minimum quality of coffee permitted for export by ICO members (passed under ICO resolution no. 407);
- as a short-term measure, helping producers to take low-grade and loss-making coffee out of production, and helping farmers in the long-term to find other sources of livelihood.

The ICO's Executive Director witnessed the incineration of low-grade Costa Rican coffee in July 2002, and, in November 2002, the diversion of a planned 63,000 60kg bags of low-grade Mexican coffee to non-beverage uses. These measures were part of a Central American regional agreement to eliminate inferior coffee, in support of the QIP.

However, nobody has suggested that a solution to the coffee crisis will be easy. It needs to combine elements of economic diversification, supply management, quality regulation, and other measures. Much will depend on the coffee-producing countries' own commitment. The underlying problem of overproduction will not be resolved unless producers can find ways to tackle it collectively, with or without the help of importing countries'. Many producing countries are reviewing their domestic arrangements in the sector, and they should be mindful to remove any provisions which could encourage continued overproduction or inhibit diversification. For example, because of coffee's importance for the balance of payments,

in some countries it is illegal to up-root coffee trees. Yet in some cases up-rooting would be justified, as a means of reducing farmers' catastrophic losses.

The main lines of donor aid for the poorest countries today are determined by the World Bank's Poverty Reduction Strategy Papers. A frequent criticism of PRSPs is that they fail to make the links between foreign trade and domestic poverty. This is officially acknowledged by the European Commission itself.⁵ But the coffee crisis is living proof of the importance of such links. Solutions to the crisis have to be tailored to local needs and possibilities, whether agronomic, climatic, cultural, or social. Since PRSPs are country-specific and meant to be designed in a participatory way, they should be able to address the specific needs of destitute coffee farmers in countries where they apply. The Common Fund for Commodities also has a role to play, as do the leading multilateral and bilateral donors.

For its part, the EU has recently used fast-disbursing aid measures in other areas to provide just the sort of support that impoverished coffee farmers and their families in the poorest countries need. The type of emergency programme regularly put in place for EU farmers is now desperately needed by the even more vulnerable coffee farmers. In Europe direct assistance is extended to farmers affected by specific crises, from British beef farmers to Greek cotton producers. There are EU funds immediately available which are tailor-made to finance such action in the case of coffee. A firm commitment to ending this crisis would send a clear signal that the EU is genuinely concerned about linking trade and poverty reduction in the context of the Doha Round of world trade talks. As an essential first step, it should support a dialogue involving the ICO and all major stakeholders to discuss measures to make the coffee market work for the poor.

The EU has the political power, technical expertise, and aid-and-trade approach to development which are required in this context. It has more power to influence events on the coffee market than any other country or trading bloc. Its Member States make up 15 of the 21 importing-country members of the ICO, and account for 46.0 per cent of the world's coffee imports. (The USA's share of imports is 22.9 per cent.)⁶ The EU has co-operation arrangements with nearly every coffee-producing country, 27 of which are in the African, Caribbean, and Pacific (ACP) group, while most of the others work with the EU's Asia-Latin America Programme (ALA).

The EU has begun to show its commitment at the highest levels to ending the coffee crisis. In November 2002 the External Relations Council expressed 'serious concern' about the situation of developing

Box 1 Ethiopia: a human tragedy in the land of coffee's birth

Ethiopia is by some measures the poorest country in the world, with national income per person of just US\$100. It is also the country where coffee originated. Yet damaging international policies, compounded by low coffee prices, threaten to turn its biggest export into a curse rather than a blessing.

Traditionally, the coffee-growing areas in the south have been among the most prosperous in Ethiopia: they were places to which people migrated when there were famines in other regions. But now, as another famine threatens to take hold, people in regions like Kafa (from which coffee took its name) and Hararghe are among the worst affected.

According to Mohammed Ali Indris, a farmer in Kafa province, 'Five to seven years ago, I was producing seven sacks of red cherry [unprocessed coffee] and this was enough to buy clothes, medicines, services and to solve so many problems. But now, even if I sell four times as much, it is impossible to cover all my expenses.

'Three of the children [in my family] can't go to school because I can't afford the uniform,' Mr Indris told Oxfam in March 2002.

The scale of Ethiopia's economic crisis is daunting. Between 1997/98, a peak year for coffee prices, and 2000/01, the value of Ethiopia's coffee exports fell 58 per cent, from US\$420m to \$175m. This coincided with a 48 per cent collapse in the terms of trade with the rest of the world: in 2001, Ethiopia had to sell nearly \$2 worth of goods abroad to buy the same as \$1 worth had bought only three years previously.

Despite this dramatic situation, official aid from rich countries to Ethiopia fell from \$883m in 1995 to \$693m in 2000.

In 2001, Ethiopia also had to repay \$41 of foreign debts for every \$100 of goods that it exported. But in December 2002 there was an international outcry over Nestlé's demand for \$6m in compensation for Ethiopia's nationalisation of a company in 1975. Nestlé eventually backed down. To finally qualify for a debt write-down, Ethiopia will have to fulfil ten new policy conditions, which are unachievable before the final quarter of 2003 at the earliest – two years after the write-down was promised, despite the threat of famine since then.

countries which depend on coffee exports, and pointed out that the issue 'needed to be looked at in the broader context of trade and development, sustainable development and poverty reduction'.⁷

More recently, Trade Commissioner Pascal Lamy told the European Parliament that 'the collapse of coffee prices is indeed utterly catastrophic'. It was an example 'which should give pause to those who promote the total liberalisation of all agricultural markets'.

Jointly with Poul Nielson, Commissioner for Development, he was aiming to 'achieve a better co-ordination of the various instruments at our disposal'.⁸

For the benefit of the ACP countries, Oxfam asks the Commission to ensure that surplus funds available under the European Development Fund (EDF) are used to alleviate the human suffering arising from the coffee crisis and promote longer-term solutions to it. Mr Nielson recently told African ministers meeting in Burkina Faso,

'We will at the end of this year [2002] have accumulated around 11 Billion € in unspent commitments or uncommitted money from 6th, 7th and 8th EDF... Our proposal is that we, with each and every one of our ACP partners, examine the possibilities of freeing up and reallocating old money at the same time as we go for utilizing to the full extent the new flexibility in the 9th EDF... Let me - in order to avoid misunderstanding - stress that the idea is not to redo the country strategies we have just agreed upon but is to accelerate delivery and open up for broader initiatives.'⁹

As just such an initiative, Oxfam urges DG-Development to work with other parts of the Commission on an assistance programme for coffee farmers in the poorest countries. We also ask the Commission and Member States to encourage the leading development programmes, and especially the PRSP/HIPC mechanism, to include locally determined measures to aid coffee farmers either to continue more successfully with the crop or where necessary, to find workable alternatives to it.

Oxfam proposes the following measures for consideration.

1 Increased aid resources to support coffee farmers and workers.

In the case of ACP countries, this could be financed from reallocated EDF funds. It would help farmers to find their way through the almost intractable problems that the coffee crisis presents. Priority would go to the poorest coffee-producing countries, and the poorest smallholder farmers within them. Established in consultation with the ICO, assistance should support the following initiatives:

- **Rural diversification.** The EU's assistance should help producers to take low-grade and loss-making coffee out of production, and diversify into other crops or non-agricultural activities. It must be pro-active and strategic, assisting those farmers and countries that are already making necessary changes, and supporting those in the greatest need.

Diversification is a complex matter, because each farmer's situation is different. It will not work unless farmers themselves make the main decisions and any resource implications for them are realistic. It is most likely to succeed when allied to broader national programmes of agricultural diversification. In some places it could require a reappraisal of current practices. For example, in northern Malawi the EDF is currently assisting the rehabilitation of coffee production, with the aim of boosting foreign-exchange earnings.¹⁰ In other places any reduction in land used for coffee may reduce farmers' access to credit, or have adverse consequences for the environment. Assistance will have to overcome all such knock-on effects of reducing overproduction.

- Actions which will **enhance coffee farmers' power on the market**. This can be done by various means, one of which is the provision of market intelligence. Small farmers in highland areas of poor countries are not well placed to monitor what is going on in international markets. This puts them in a weak position next to traders who have that information; it can be difficult to challenge a price offer and begin to negotiate. Such farmers are in the classic position of price takers. Ways must be found to afford them the necessary information in future.

Small farmers can also win better deals if they negotiate with purchasers and suppliers collectively as part of production or marketing co-operatives. Co-operatives can more easily attract credit and purchase essential inputs, and lead the way into premium areas of the market. The EU should assist the creation and development of coffee farmers' co-operatives.

Extension advice gives farmers technical information about harvesting and tending of crops, and advice about market opportunities. In coffee-growing countries it is not widely available, but at a time when the coffee market is becomingly increasingly differentiated, with expanding opportunities to add value in specialised sectors, such advice is needed more than ever. It should be assisted.

Finally, access to credit and inputs can greatly improve farmers' position on almost any market. Credit during the growing season enables them to pay for labour and other inputs, and to have some degree of choice when deciding on the best time to sell a crop. Without credit, poor farmers are easy prey for traders. Improving their access to credit is often the most effective means of support for farmers.

- 2 **A premium quality scheme.** Both the Council and the Commission have expressed support for the ICO's Quality Improvement Programme. There are several practical ways in which they can bring this to life. The coffee market is becoming increasingly differentiated, with premium prices for certain 'niche' products at the top end.¹¹ This mirrors developments in earlier decades on such markets as wine and whisky. Premiums are paid for three kinds of coffee (not mutually exclusive): environmentally beneficial (organic or shade-grown), fair-traded, and 'gourmet' or 'specialty' coffee (from a particular country or single estate).

Coffee farmers need contacts in rich-country markets, and often external funding, before they can develop such lines. The organic and fair-trade niches have already developed within market structures. Both benefit from independent certification (for example, in the UK, the Soil Association's mark for organic produce and the Fairtrade Foundation's mark for fairly traded goods). If there is a role for donor assistance in this area, it will be the limited one of putting producers and purchasers in touch with each other, in support of the established principles of the European Fair Trade Association and the organic farming movement (and perhaps providing seed money or credit).

Certain coffee origins are also becoming differentiated from the 'commodified' bulk of the trade, rather like *appellation contrôlée* wines and single-malt whiskies. From small bases, the latter have slowly acquired large shares of their respective international markets. Good-quality single-country coffees have always fetched higher prices, but there are signs that this category is also becoming more institutionalised. This is clearly of advantage to growers as long as they can capture a fair share of the premiums on offer.

The EU has rich experience in related fields which can assist this process. It should investigate whether a formal system of certification would be of benefit (as for organic produce and *appellation contrôlée* wine), or whether differentiation should remain limited to market branding (like single-malt whiskies). An advantage of certification is that it can impose requirements for matters like labour practices, which a market-led process would ignore. On the other hand, a proliferation of certification schemes is not desirable.

- 3 **Stock destruction.** The benefits of the ICO's Quality Improvement Programme will arrive too late to ease the crisis for smallholder farmers unless, as a one-off emergency measure,

modest stock destruction removes the worst of the overhang. The ICO estimates that destruction of 5 million bags, at a cost of €100m, could lead to a price rise of 20 per cent on 2000/01 average prices – providing €700m-800m in additional export income for coffee-producing countries. This would bring some immediate relief, galvanise action amongst producer governments, and buy time for longer-term solutions to be put in place. The EU and other donors should provide substantial funding for the one-off destruction of the lowest-quality coffee held in importing-country stocks.

The need for practical support of this sort is greater than ever. There has never previously been such a dramatic collapse in the coffee market, and the call for development instruments to be deployed is all the more urgent. The market could find its own solution by forcing farmers out of production. It is already doing so in many cases. But without intervention by donors or governments, it is the most vulnerable farmers who will suffer the most. Those with resources to invest, or who already produce high-quality coffee, can improve their position further. The problem for those whose coffee is of lower quality is more difficult. They must find alternative sources of livelihood; yet experience shows that the poorest farmers are generally the least able to take risks or make necessary investments.

Commodity markets in general are facing a crisis at present – not just in coffee. Generous support from the rich world is needed more widely. For the longer term, it will be important to review what works and does not work in assistance of this sort, including the establishment of delivery systems for swift disbursement. This can be a foundation for a more elaborated response to the needs of commodity-dependent developing countries, in the form of the Communication on Commodities to which the Commission is already committed.

3 Financial compensation

Under the former Lomé Agreement, the EU used the Stabex scheme to compensate ACP nations for shortfalls in export earnings arising from movements on the commodity markets. President Chirac of France has publicly regretted the passing of Stabex, and went so far as to suggest that leading industrial countries should import some of their coffee and other commodities at guaranteed prices.¹²

Stabex provided beneficiary countries with badly needed liquidity; especially in its earlier years, disbursements were rapid, automatic,

and predictable. Stabex funding would have been useful as a response to the collapse of coffee prices, and a substitute for it, and it equivalent is sorely needed now. During the previous crisis on the coffee market, 978m Ecu was committed under Stabex to cover losses of 17 coffee-dependent ACP countries in the period 1990-94. While there were some complaints that disbursement was slower than in previous years, the payments were praised in the 1998 evaluation of Stabex, for their role in supporting restructuring in the coffee sector.

In comparison, no more than €642m was offered to just eight coffee-exporting countries under the equivalent 'B' allocations in the new, 9th EDF. The procedures for utilising this money are more complex, and as long as some EU Member States have not ratified the Cotonou Agreement, these funds cannot legally be disbursed. Therefore rapid implementation appears less likely. But addressing the needs arising from the coffee crisis in the poorest ACP countries would be an excellent way of utilising some of the EU's undeployed aid funds. It would benefit rural citizens without calling into question any commitments made under the EU's country strategies. One-tenth of the EDF funds available (€1.1bn out of €11bn) is unspent money from the Stabex programme. In view of the severity of the current crisis, **Oxfam asks the EU to make €750m of the overflow funds from Stabex available to all ACP countries affected by the coffee crisis, in proportion to their needs.**

The most important requirement in using this money is quick disbursement, so that farmers can find rapid relief from the crisis. The aid should be used for non-conditional balance-of-payments and budgetary support; and the more decentralised the aid, the better. In countries which have the appropriate administrative framework, this will mean aiding local authorities or development committees. As an example of successful action of this sort, the EU recently provided support to every local commune in Rwanda, to the tune of roughly €1 per citizen, thereby injecting cash into the farming economy. Local development committees decided on the actual use of the money.

In Ugandan coffee-growing areas, the situation is so serious that people can no longer afford to pay a graduated tax amounting to €2 per person per year. This has created a serious shortfall in budgets for essential services. This gap could be quickly bridged by using the unspent money from Stabex in the way proposed. The needs in coffee-growing areas in Ethiopia are even more severe, with severe food shortages already occurring (see Box 1). Most of the immediate needs of coffee farmers are local and could be addressed in this way.

Box 2 African coffee's hidden woes

Both the arabica and robusta varieties of coffee come from Africa, and the crop is grown by more than five million producers in more than half the countries in that continent. But in recent times its production has stagnated, its share of the world market has fallen, and its voice in the coffee world has become more muted.

The severity of the African coffee crisis is easily overlooked, because each country's production is generally small as a share of world output, yet it can be very important to the national economy. For example, in 2001 Burundi accounted for just 0.3 per cent of world coffee exports, but this brought in 50 per cent of its export revenue. A halving of export prices meant a reduction from a 79.6 per cent share of exports three years earlier.

In some countries, often as a result of war, coffee production has collapsed. Before independence, Angola was the world's fourth biggest producer, with 4 million bags per year at its peak, but by 2002 it exported only 9,300 bags. The Democratic Republic of Congo's export volume fell by 90 per cent between 1996 and 2000, and coffee's contribution to export revenue declined from 15.9 per cent to 1.6 per cent.

Overall, Africa's share of world output has declined from 30 per cent to 15 per cent over the last 30 years, while incomes from coffee have fallen by 65 per cent in six years. Hence the continent's loss of political influence within the coffee world. This is exacerbated by the overall economic crisis in many countries, which means that some cannot afford to send delegates regularly to the ICO, and the predominance of less highly regarded robusta coffee in their output (with certain notable exceptions such as Ethiopia and Kenya).

In October 2002 the Inter-African Coffee Organisation passed the Malabo Declaration. This called on its members to undertake diversification actions in order to increase coffee producers' revenue, promote domestic consumption, and support ICO resolution nos. 407 on coffee quality and 413 on a renewal of USA membership of the ICO.

4 Trade practices

Trade can play a greater role than aid in reducing poverty, and the EU can achieve much via international trade policies and procedures. Coffee is unusual among global agricultural markets in being almost fully liberalised. By 1990 the International Coffee Agreement's former mechanisms to regulate prices and exports were already wound up and many producer countries had been persuaded to cease intervening via state marketing boards and other mechanisms. The problem of the coffee market is actually that of the *failure* of liberalisation, not its insufficiency.

Oxfam is pleased to note that the Commission has already promised some action under its trade mechanisms. The Commission has promised to carry out comprehensive monitoring of coffee quality relative to ICO Resolution 407 'in close collaboration with the private sector'. Every quarter it will send the ICO 'information received by the European Coffee Federation on compliance by coffee exporters of the quality requirements'.¹³

This is a welcome but insufficient step. Experience in similar fields leads Oxfam to urge the Commission to bolster the credibility of these arrangements by supplementing them with independent monitoring of the coffee entering EU markets, and quickly making the findings public. This will bring needed transparency as to which countries and companies are trading below ICO standards. The easiest way to achieve this is for Member States' customs authorities to regularly test the quality of imported coffee, check it against the quality certificates required by the ICO, and make the results public and available to exporters and importers alike. The cost to the EU would be negligible. The support to the ICO scheme, and finally to poor coffee farmers, would be substantial. Currently all the costs of implementing the scheme fall on the producer countries, despite the financial constraints imposed on them by the coffee crisis itself.

Two ways remain in which EU trade barriers inhibit a recovery from the coffee crisis. **Proposals to revise international rules for both were recently proposed as part of the Doha Round of talks at the World Trade Organisation.¹⁴ The Commission's negotiators should press for a favourable outcome to the WTO Agreement on Agriculture negotiations in both of these areas.**

First, import tariffs of between 7.5 and 9.0 per cent are levied on coffee processed beyond the green-bean stage from certain non-ACP countries. This makes it difficult for those countries to increase their share of value added by means of downstream processing. The 'First Draft of Modalities' of the WTO agriculture talks, published in February 2003, proposed that developed countries 'should' provide 'the fullest liberalization of trade in tropical products, whether in primary or in processed form'.¹⁵ **Oxfam asks the EU to ensure that this text is strengthened into a mandatory requirement, and urges the Commission to act immediately to withdraw its remaining tariffs on processed coffee, ahead of final agreement of a Doha text.**

Secondly, many potential alternatives to coffee production are effectively ruled out because WTO rules permit rich countries to dump subsidised farm produce on developing-country markets, and otherwise restrict the markets for crops which farmers might use to diversify away from coffee production. Ugandan attempts to

diversify out of coffee were frustrated by the banning of fish exports for phyto-sanitary reasons, and also by lack of access to maize and sugar export markets, because they could not compete against dumped EU exports.¹⁶

During the Doha Round, the EU should agree to remove both direct and indirect export subsidies on agricultural produce. It should ensure that market access for diversification crops is built into the revised Agreement on Agriculture. The February 2003 WTO draft proposed full liberalisation of trade in products of particular importance for diversifying production from illicit narcotic crops and those which are harmful for human health.¹⁷ **Oxfam asks the EU's negotiators to ensure that this is broadened to guarantee market opportunities are available for crops into which tropical farmers could diversify out of failing markets such as coffee.** Taken together, these provisions should ensure that coffee farmers have sufficient access to local, national and international markets to make alternative livelihoods a realistic proposition.

5 Constrained competition

As the coffee authorities of Central American countries have observed,

‘In terms of the distribution of income from the world coffee industry, the share received by producing countries has shrunk significantly, while the profits of the import sector have multiplied, since the low prices paid to the producers are not reflected in those which the end consumer is charged.’¹⁸

There is an emerging consensus that a fundamental problem in the coffee trade lies in the market's structure. Power imbalances are increasingly recognised as an important factor in international commodities trade. As the UN's Food and Agriculture Organisation put it, ‘The producers' share of [commodity] prices is unusually low and they appear to be lowest in commodities that have highly concentrated food-processing sectors. Thus it appears that the market structure is an important area which needs investigation.’¹⁹

Since the late 1980s, coffee-market liberalisation has been accompanied by a rapid concentration of ownership. In 1998, the worldwide market shares of the four leading roasting and instant manufacturing companies were quoted as: 25 per cent for Philip Morris (recently renamed Altria; the owner of Kraft Jacobs Suchard), 24 per cent for Nestlé; and seven per cent each for Sara Lee and P&G,

or 63 per cent between them.²⁰ At the stage of green coffee purchases, trade sources quote these four as accounting for a combined 40 per cent of annual volume, led by Nestlé and Altria with 13 per cent each.²¹ It is hard to explain the discrepancy between those two sets of figures, except perhaps by the greater processing mark-ups which are available to leading brands and especially in the case of instant coffees such as Altria/Kraft's Maxwell House, Birds, and Carte Noire, and Nestlé's Nescafé.

Orthodox economic theory considers an oligopoly to exist when the four leading firms in a market have a combined market share of 40 per cent or more.²² By that measure, there seems to be a worldwide oligopoly at both the green-coffee and final-consumer stages. On this basis, oligopoly also prevails at the EU level and within its 15 Member States individually, where the combined market shares of the leading five firms range from 72 per cent in Austria to 97 per cent in Finland (the country with the highest coffee consumption per person in the world).²³ However, the breakdowns vary strikingly from country to country. Thus, in the United Kingdom, with its consumers' preference for soluble coffee, Nestlé has 51 per cent of the consumer market, while in the Netherlands Sara Lee's Douwe Egberts subsidiary has 69 per cent, and in Sweden Altria/Kraft enjoys a 53 per cent share.²⁴ Kraft has the largest share overall, with approximately one-third of the EU's market.

These figures may go some way to explain the falling share of world prices accruing to coffee farmers and producing countries. Faced with similar limits to competition, industrial countries have taken action since the late nineteenth century to prevent oligopolistic practices and, in some cases, to break up the firms involved. At present, despite the global economy, there are no institutions at the global level to do this. However, in the absence of such a body, there is much that the EU and its Member States can do to combat any oligopolistic features of the European coffee market. Relaxing the big roasters' stranglehold would allow the market to breathe again, and small farmers and workers to earn at least minimal livelihoods from the coffee they grow.

6 Policy recommendations

The EU should not stand idly by as the crisis on the world coffee market escalates into an international disaster. The EU has numerous instruments which can make a difference to the lives of poor people devastated by this crisis. Oxfam proposes that the EU should act in the following policy areas:

- **Make available a further €750m** in immediately disburseable payments to all ACP countries affected by the coffee crisis, in proportion to their needs.
- **Increased aid to support coffee farmers and workers**, using available resources wherever possible. This would assist farmers with rural diversification, market intelligence, development of co-operatives, extension advice, access to credit and agricultural inputs, and a scheme to help them to make the most of premium coffee-market niches.
- In the area of international trade, the EU should support the ICO's Quality Improvement Programme with **independent monitoring of coffee entering the EU's market**. It should **remove its remaining tariffs** on processed coffee, as well as all export subsidies and quotas on other products from which poor farmers might derive cash incomes to replace those that they lose from coffee. Oxfam also calls upon EU negotiators to ensure that such practices are rapidly outlawed under the current Doha Round of world trade talks.
- Assist the **destruction of certain low-quality coffee stocks**, as a one-off emergency measure to provide an immediate and necessary boost to prices.

Notes

- ¹ Intervention of M. Jacques Chirac, President of the Republic, on the occasion of the 22nd Conference of Heads of State of Africa and France, concerning agricultural development, p.4. Text released by the French Government, unofficially translated by Oxfam.
- ² See 'Central America moves to eliminate low-grade coffee,' declaration by the coffee authorities of Costa Rica, El Salvador, Honduras, Guatemala, Mexico and Colombia, 19 July 2002 (www.ico.org/ed/19julio.htm).
- ³ These ratios adjust the green-bean price for loss of weight so as to render this price comparable to the retail price. This issue, as well as the Ugandan case, is discussed in detail in Oxfam (2002), pp. 20-25.
- ⁴ Oxfam (2002), p. 26, footnotes 43, 44.
- ⁵ 'Overall, however, the first generation of PRSPs has failed to give trade issues the prominence they deserve' (Communication from the Commission to the Council and the European Parliament on 'Trade and Development: Assisting Developing Countries to Benefit from Trade,' 19 September 2002 [ref. no. COM(2002) 513 final], p. 20).
- ⁶ In 2000/01 the EU's 15 member states imported 47.9m 60kg bags of coffee, compared with 23.8m imported into the USA, according to the ICO.
- ⁷ 'International Trade in Coffee', p. 18 of Conclusions of 2464th Council meeting on External Relations held in Brussels, 19 November 2002. Available at <http://ue.eu.int/Newsroom/makeFrame.asp?MAX=1&BID=71&DID=73286&LANG=1&File=/pressData/en/gena/73286.pdf&Picture=0> in February 2003.
- ⁸ Answer by Pascal Lamy on behalf of the European Commission to question no. 41 asked by the Green MEP, Camilo Nogueira Román (order paper item H-0008/03), at the February 2003 session of the European Parliament in Strasbourg. The quoted passages are unofficial translations from French by Oxfam.
- ⁹ Opening Statement by Commissioner Poul Nielson on the Occasion of the 2nd Africa-Europe Ministerial Conference, Ouagadougou, 28 November 2002.
- ¹⁰ L. Sprey, (2002), p. 7, citing a study made in 2000 for the development of smallholder coffee farmers in Northern Malawi.
- ¹¹ This is well analysed in Fitter and Kaplinsky (2001).
- ¹² 'Cotton, coffee and cocoa assure incomes and survival for millions of producers and agricultural workers, who are among the poorest in the world and the least protected... Therefore I will propose to the other members of G8 and the international institutions which work in this field to reopen the case. Several paths deserve to be explored... [One of them is to] adapt the treatment of poor countries' debts in function of the evolution of commodity prices... Perhaps we were wrong to abandon mechanisms of the STABEX

type, even if they did not work perfectly. We could think of ways to import part of your [African] production at guaranteed prices.' Intervention of M. Jacques Chirac, *op. cit.*, p.4.

¹³ Written reply dated 18 December 2002 from the European Commission to Nicholas Clegg MEP's oral question no. H-0748/02 on 'The International Coffee Organisation's Quality Improvement Coffee Scheme'.

¹⁴ 'Negotiations on Agriculture: First Draft of Modalities for the Further Commitments' WTO paper drafted by Stuart Harbinson, 12 February 2003.

¹⁵ *Ibid.*, para. 9.

¹⁶ According to the statement by Louis Balinda, Ugandan Chargé d'Affaires to the EU, at Oxfam Roundtable on the Global Coffee Crisis, Brussels, 8 January 2003.

¹⁷ First Draft of Modalities paper, *op.cit.*

¹⁸ Para. 3 of 'Central America moves to eliminate low-grade coffee', *op. cit.*

¹⁹ FAO Consultation, 'Back to Office Report by World Bank Officials', March 2002.

²⁰ van Dijk et al. (1998).

²¹ These figures were provided by various sources, including Volcafé.

²² The standard work is Scherer (1980), which argues (p. 67): 'When the leading four firms control 40 per cent or more of the total market, it is fair to assume that oligopoly is beginning to rear its head.'

²³ International Trade Centre (2002), p. 30.

²⁴ Calfat and Flôres (2002).

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