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Executive brief

October 2009

ACP-EU Trade Issues in the Coffee Sector

Contents

1. Key issues for ACP countries

The share of ACP countries in world coffee exports has almost halved over the last 20 years, partly because of the rise of production in non-ACP countries such as Indonesia and Vietnam. All major ACP producers are in Africa with the exception of Papua New Guinea. The EU25 countries account for over 50% of total consumption of coffee globally, and remain the dominant market for ACP producers.

The International Coffee Organisation operated a quota-regulation system until 1989. Since then, production has risen dramatically and has remained over 100 million (60 kilogram) bags every year. Prices fell sharply to the lowest level for a century in the period from 2000 to 2004, but recovered thereafter. Along with a more general commodity-price boom, since 2007 the average ICO composite indicator price has reached and remained over the $1/lb mark, for the first time since 1998. In 2008, this average was over $1.20/lb, while in January-July 2009 it was $1.10/lb. Stocks in producing countries are currently at the lowest levels in recorded history. However, farmers' gains resulting from higher coffee prices have been significantly eroded by high oil prices (through increasing costs of farmers' inputs) and the continued weakness of the US dollar.

Along with increasing prices, the coffee industry is witnessing a rapid growth of certified 'sustainable' coffees – such as 'organic', 'fair trade', 'Rainforest Alliance Certified', 'Utz Certified', and other designations. According to recent estimates, the sustainable market accounts for approximately 5.5% of exports, up from 1% in 2003. This follows the rapid development of the speciality coffee market in the 1990s.

The value chain for coffee has gone through some major restructuring in the last two decades. Producer organisations have lost much of their clout due to the end of quota regulation and domestic market liberalisation. Local traders have been put under pressure from increased involvement by international traders in domestic procurement. International traders themselves have gone through considerable restructuring. Mid-sized traders found themselves too small to compete with larger ones. As a result, they either went bankrupt, merged with others, or were taken over by larger traders. The coffee trade is becoming more concentrated. With some exceptions, there has been little vertical integration between roasters and international traders. And the level of concentration in the roaster market has reached a level even higher than for international traders. Roasters are still able to maintain a relative position of power over retailers because in many retail markets coffee is offered to consumers at a low margin, or even at a loss. This applies to mainstream coffee. Speciality coffees exhibit higher margins at the retail level, but supermarkets' own brands have not been able to enter the speciality segment in meaningful ways. One is more likely to find 'high quality' brands dominating the high-end market in retail chains.

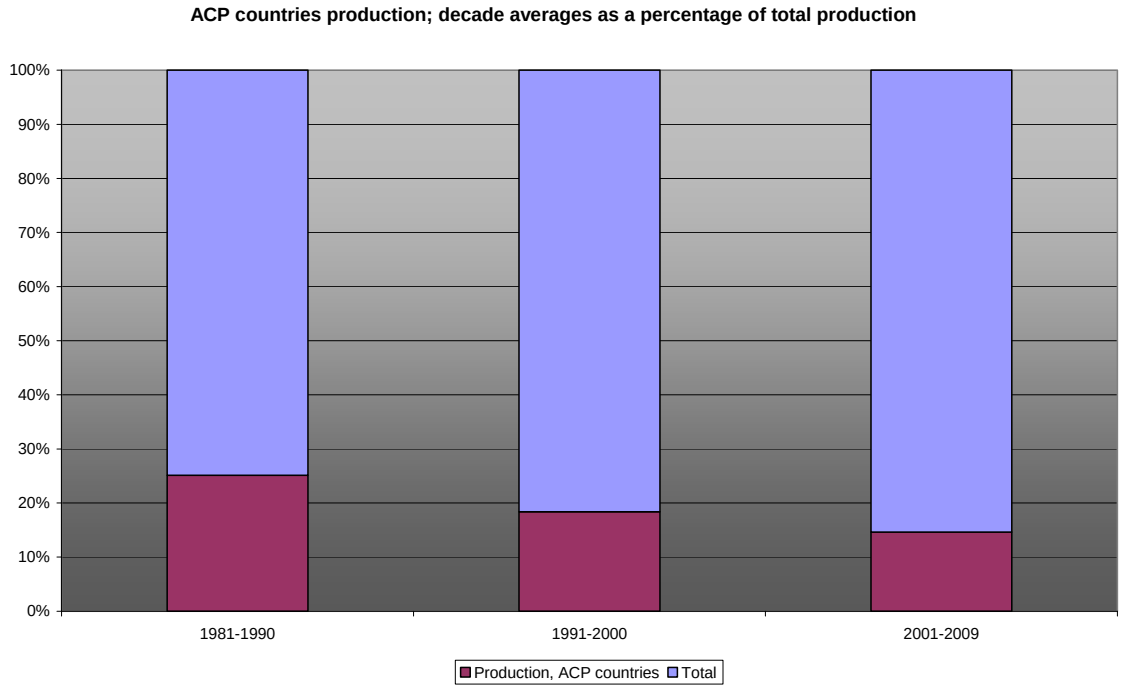
Increasing and sustaining coffee farmers' income (and especially smallholders') in ACP countries is an important policy goal. The possibility of achieving this by reasserting some control over the market, as operated by the ICO before 1989, or through other price-support or compensation schemes such as STABEX and now FLEX, does not offer much hope of success. Better prospects are offered by the promotion of speciality and sustainable coffees and the capturing of value-added through systems of indications of geographic origin (GIs).

2. Latest developments

2.1 Production, trade and consumption

ACP countries accounted for less than 15% of total coffee production in 2001-2009. This is less than the 18% share they had in the 1990s and their 25% share in the 1980s (see Figure 1). In 2008/09, they accounted for 19.2 million bags out of a world coffee production of over 128.8 million bags. Top ACP producers in 2008/09 were Ethiopia (with over 6.1 million bags and a 25% increase over the previous year), Uganda (3.3 million), Côte d'Ivoire (2.5 million), and PNG (just over 1 million) (see Table 1). Only one country, Ethiopia, figures in the top 10 coffee producers worldwide (see Table 2).

Figure 1: Coffee production in ACP countries as proportion of global coffee production (by volume)



Source: elaborated from ICO data

Table 1: Top ten ACP coffee producers and exporters, 2008/09

	Production (2008/09)		**Export (2008)**	
Rank	Country	(000) bags	Country	(000) bags
1	Ethiopia	6133	Uganda	3311
2	Uganda	3300	Ethiopia	2852
3	Côte d'Ivoire	2500	Cote d'Ivoire	1585
4	Papua New Guinea	1026	Papua New Guinea	1094
5	Tanzania	917	Tanzania	818
6	Kenya	883	Kenya	608
7	Cameroon	833	Cameroon	527
8	Madagascar	629	Guinea	335
9	Dominican Republic	500	Rwanda	283
10	Congo, Dem. Rep. Of	400	Burundi	251

Source: elaborated from ICO data

Table 2: Top ten coffee producers and exporters, 2008/09

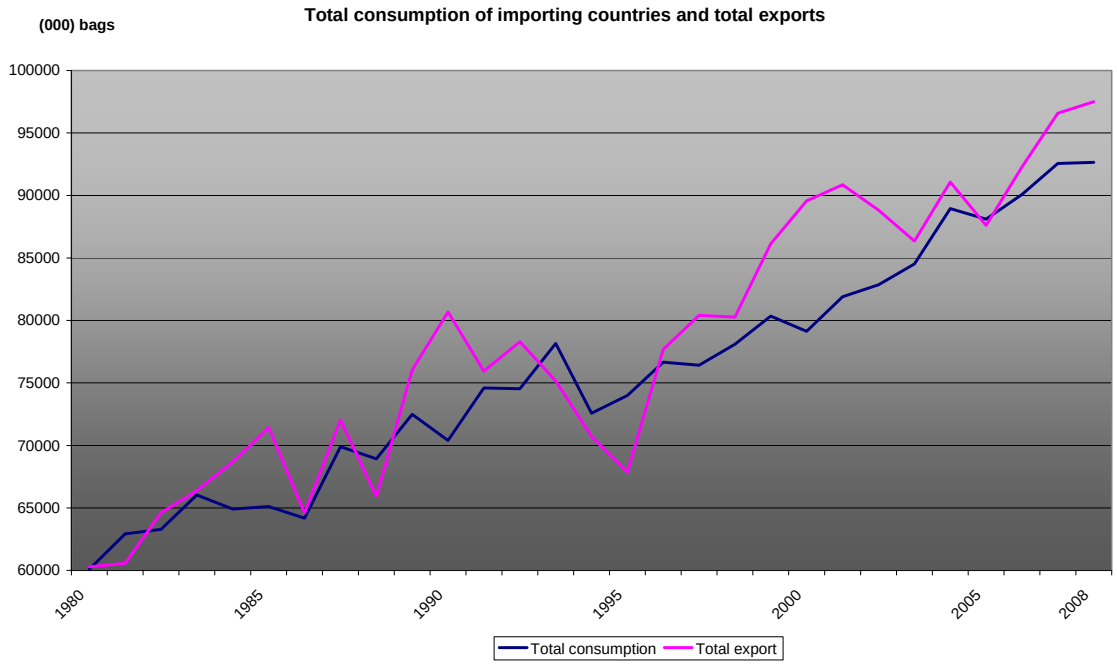
	Production (2008/09)		Exports (2008)	
Rank	Country	(000) bags	Country	(000) bags
1	Brazil	45992	Brazil	29495
2	Vietnam	16000	Vietnam	16101
3	Colombia	10500	Colombia	11085
4	Indonesia	8638	Indonesia	5741
5	Ethiopia*	6133	Guatemala	3778
6	Mexico	4650	Peru	3733
7	India	4372	Uganda*	3311
8	Peru	3868	Honduras	3256
9	Honduras	3373	India	3145
10	Guatemala	3370	Ethiopia*	2852

Note: * = ACP country

Source: Elaborated from ICO data

The picture for exports follows more or less the same dynamics as for production, but with a more marked proportional fall for ACP countries in the 2000s. ACP countries accounted for 14.9% of total exports in 2001-2008, down from 21.3% in the 1990s and 27.4% in the 1980s. In 2008, they accounted for only 12.8% of total exports. Top ACP exporters in 2008 were Uganda (with 3.3 million bags), Ethiopia (with 2.9 million), Côte d'Ivoire (with 1.6 million) and PNG (with over 1 million). Two ACP countries (Uganda and Ethiopia) figure in the top 10 exporters worldwide.

Figure 2: Consumption in importing countries and total exports (1980-2008)



Consumption data in importing countries (see Figure 2 and Table 3) shows a steady growth in volume, especially in emerging markets (non-ICO importing members). This is compounded by healthy growth in producer countries' own consumption markets – particularly in Brazil, Mexico, Indonesia, Ethiopia, Colombia and India.

Table 3: Consumption in importing and in producing countries ('000 bags) (2000-2008)

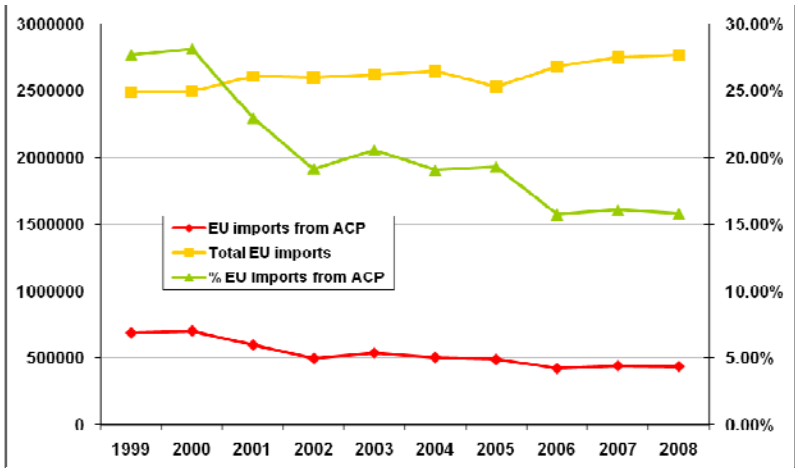
	2000	2004	2008
Importing ICO members*	64862	70713	70442
EC countries total	38007	41193	39859
Top 3 EC countries (as of 2008)			
1. Germany	5402	4929	5143
2. Italy	8770	10445	9554
3. France	5149	5469	5937
Other EC countries	18686	20350	19225
Japan	6626	7117	7065
USA	18746	20973	21655
Importing ICO non-members	14258	18240	22198
Consumption in all importing countries	79120	88953	92640
Consumption in producing countries**	26375	29999	35074

*Calendar years, **Crop years

Source: elaboration from ICO data

Although import from ACP countries have been falling only slightly over the last ten years, this is in the context of rising EU imports so that the ACP share has fallen from about 28% to 16% as shown in Table 4.

Table 4: Imports of coffee (tonnes) into the EU 1999-2008 and ACP share



As shown in Table 5, tariff barriers on imports of coffee in the main importing countries remain low or zero for green coffee, and a bit higher for roasted coffee.

Table 5: Import duties

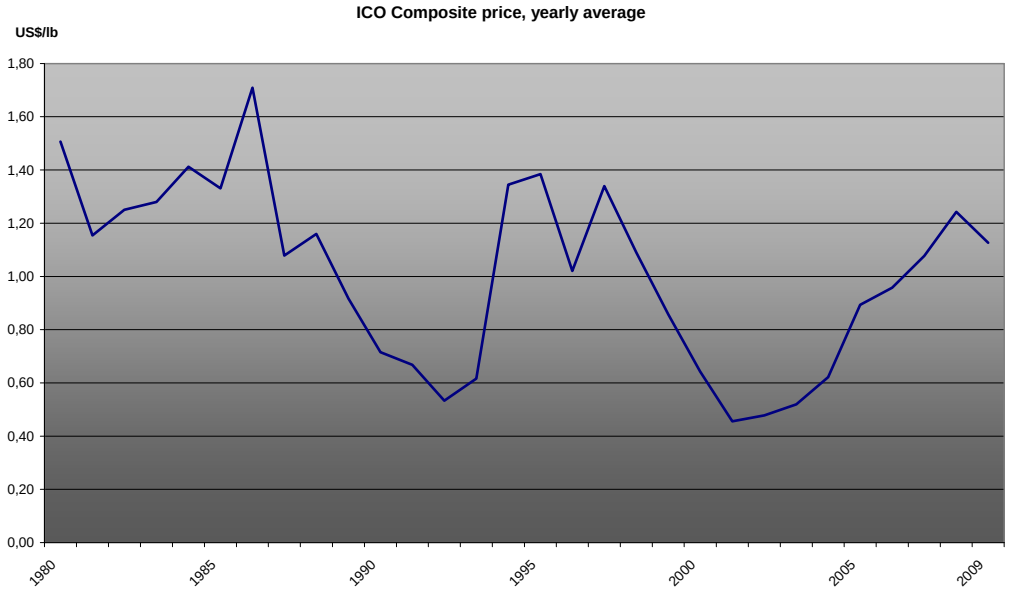
	Green coffee	Roasted coffee
EC	MFN GATT bound 0% MFN statutory 0% LDC 0% EPA 0%	MFN GATT bound 7.5% MFN statutory 7.5% GSP 2,6% LDC 0% EPA 0%
Japan	0%	MFN GATT bound 12% MFN statutory 12% GSP 10% LDC 0% General 20%
USA	0%	0%

Source: ICO, 2008

2.2 Prices

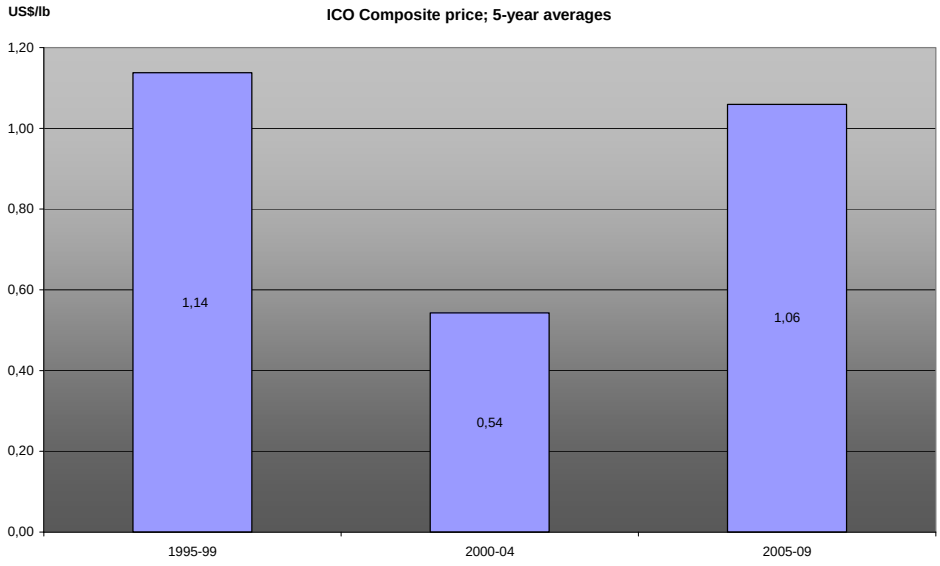
After suffering from the lowest real prices in recorded history in 2000-2004, international coffee prices have recovered healthily, especially since late 2006 (see Figure 3). The composite ICO price averaged $0.54/lb in 2000-2004 and doubled to $1.04 in 2005-08 (see Figure 4). It started exceeding $1/lb in 2007 for the first time since 1998. In 2008, it was $1.24 before falling to $1.13 in the first half of 2009. Due to low levels of stocks, exports have been just sufficient to cover existing demand in importing countries in the past few years (see Figure 2). Since the current crisis does not seem to have affected the volume of demand significantly (see below), the current situation is likely to continue in the short-to-medium term.

Figure 3: International prices 1980-2009 (ICO composite price)



Source: elaborated from ICO data

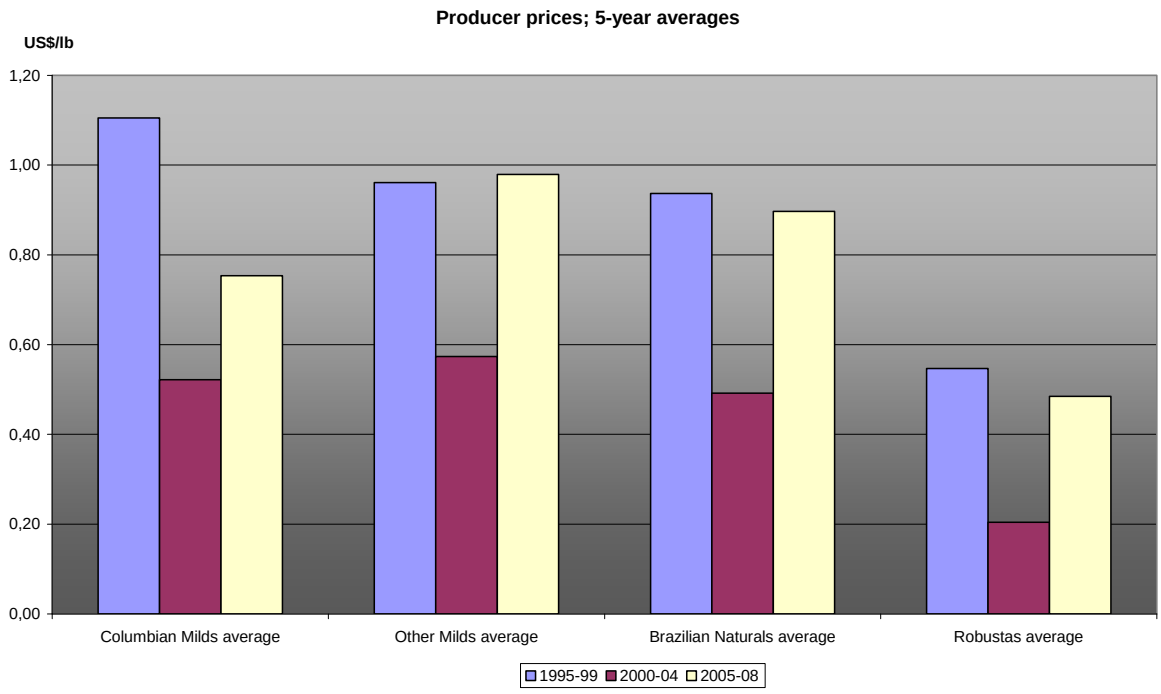
Figure 4: International prices, 5-year averages (ICO composite price)



Source: elaborated from ICO data

Producer prices (in dollar terms) have increased as well, although at lower rates (with the exception of robusta) than in the case of international prices: for Colombian milds from $0.52/lb in 2000-04 to $0.75/lb in 2005-09 for other milds from $0.57/lb in 2000-04 to $0.98/lb in 2005-09 for Brazilian naturals from 0.49 to 0.90; and for robustas from $0.20 to $0.48 (see Figure 5).

Figure 5: Average producer prices in reporting countries



Source: Elaborated from ICO data

In terms of net incomes for producers, however, these price increases have been moderated by increases in the price of oil (which affects the price of fertiliser and transport) and the steady devaluation of the dollar. Since most ACP countries have currencies that are not pegged to the dollar, this has meant a downward pressure on prices in local currencies.

2.3 The financial crisis and coffee

The financial and economic crisis that started in late 2007 does not seem to have had major repercussions in the coffee market. Coffee consumption overall is holding up well, at least in traditional coffee consuming countries, although there are indications of switches from out-of-home to in-home consumption and from consumption of more expensive products to less expensive ones. The picture is less clear in relation to emerging coffee consumption markets.

Market reports suggest that out-of-home consumption is recording movements from fancier locations (Starbucks is slated to close 1000 of its US coffee shops) to cheaper outlets such as McDonalds, which are recording strong sales. At the same time, UK reports indicate that both cheap and upper-end outlets are holding up well, at the expense of middle-range coffee shops.

Consumption in emerging economies, such as eastern Europe, however, is more at risk as coffee drinking is not as entrenched and where purchasing power may be affected by unemployment and economic instability.

The impact of credit tightening was also expected to lead to problems in accessing trade finance, and in more expensive hedging. Reports from coffee and other agro-food sector, however, suggest that this has not been a major problem.

2.4 The 2007 International Coffee Agreement and other ICO-related issues

The seventh International Coffee Agreement (ICA) was agreed upon among ICO members in 2007. Once ratified, it will replace the 2001 ICA. Signing and ratification have proceeded somewhat slowly, with the result that the validity of the 2001 ICA was extended by one more year until September 2009. One of the major setbacks for the ICO was the decision by Japan not to be part of the ICA. In contrast to the ICAs that were in force before 1989, both the 2001 and 2007 ICAs do not give any quota-related regulatory powers to the ICO. They focus on promotion and market development of coffee, gathering of statistical information, funding of specific projects for technical assistance, and the creation and governance of special groups and committees. The main new noteworthy features of the 2007 ICA are: (1) specific references to 'sustainability' in the overall objective – formulated as 'sustainable expansion [of the coffee sector] in a market-based environment'; it remains to be seen how this is translated into practice; (2) the creation of a four new bodies, of which the 'consultative forum on coffee-sector finance' is the most important addition; and (3) stricter obligations for members on reporting of statistical information.

The Coffee Quality-Improvement Programme, initially envisaged as a mandatory mechanism to improve the quality of internationally traded coffee, was introduced in October 2002 under Resolution 407, and revised substantially in 2004 under Resolution 420. It is now a voluntary programme encouraging coffee-exporting members to match certain basic quality requirements. In 2007/08, 28 members indicated the quality of their green coffee in certificates of origin (these countries account for about 70% of total exports). Over 91% of arabica coffee coming from these countries was found to be in compliance with the minimum standard, but only 25% of robusta. It is not clear whether such non-compliance has any effect on prices or reputation, however.

2.5 Latest developments in speciality and sustainable coffees

As explained in detail in the basic coffee brief, 'sustainable' coffee is becoming an increasingly visible part of the market, with spectacular growth in the 2000s. In addition to the growth of certified coffee such as 'organic', 'fair trade', Rainforest Alliance and Utz-certified sales, the past few years have seen the establishment of roasters' own private standards on sustainability, first with the Starbucks CAFE Practices and later with the Nespresso AAA Sustainable Quality Programme. The latter originally verified farm practices against a code of conduct, but from May 2009 the programme aims to have all participating farms (approximately 25,000) seeking certification by the Rainforest Alliance label. Another major development has been the establishment in 2009 of a secretariat and regional offices of the 4C Association (Common Code for the Coffee Community). The association is structured around three chambers (producers, trade and industry, civil society) and manages an industry-wide voluntary code of conduct, which is based on a list of 28 principles and 10 unacceptable practices. As of June 2009, 4C had verified 48 units in 16 countries against the code of conduct, with another 25 units in the pipeline. A unit is a managing entity that can fill at least one container of coffee (usually, groups of producers, cooperatives, mills, or exporters). The total production capacity of these units amounts to 8.8 million bags. 4C has developed a benchmarking scheme with Rainforest Alliance, where a certification against RA counts as equivalent to matching the 4C code of conduct (but not the contrary).

Despite the growth of sustainability certifications and codes of conduct, it is still not clear what kinds of benefits accrue to the target beneficiaries – coffee producers and their communities. A new study by Giovannucci and Potts (2008) reports the results of a preliminary survey conducted among over 50 coffee farms that are certified against one of the main existing sustainability initiatives: organic, fair trade, Rainforest Alliance, Utz certified, Starbucks CAFÉ practices and the Common Code for the Coffee Community (4C). The main findings of this report suggest that farm performance along social, environmental and economic indicators is highly variable, depending on location and the type of certification. Certified farms overall seem to be better off in terms of net income, although in some cases the difference with conventional farms can be small. Slightly over 50% of farms reported improved market access as a result of certification. So far, there seems to be little evidence that certification has significant effects on the environment at least in the early years, with the exception of improved pollution management. On social indicators, certified farms seem to have better occupation health and safety, employee relations and labour-rights performance (these apply mainly to estate farms, not to smallholders).

As mentioned in the base brief, another tool to add value to coffee in ways that can benefits producers is the development of geographic indications (GIs). A recent ICO seminar, held in May 2008, discussed the potential and challenged of developing GIs for coffee. The main results from this discussion are that GIs:

1. can be powerful tools to profile certain areas and can offer considerable benefits;
2. should be seen as complementary to trademarks rather than substitutes;
3. need long-term commitment of resources;
4. can be built upon a considerable wealth of knowledge and experience on the ground in producing countries

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Useful websites:

4C: Common Code for the Coffee Community
http://www.sustainable-coffee.net/

Fairtrade Labelling Organisations International (FLO)
http://www.fairtrade.net/

International Federation of Organic Agriculture Movements (IFOAM)
http://www.ifoam.org/

International Coffee Organisation (ICO)
http://www.ico.org/

Rainforest Alliance
http://www.rainforestalliance.com/programs/agriculture/certified-crops/coffee.html

Starbucks' C.A.F.E. (Coffee and Farmer Equity) Practices
http://www.scscertified.com/csr/starbucks.html

Sustainable Coffee Partnership (SCP)
http://www.iisd.org/markets/policy/scp.asp

Utz-certified
http://www.utzcertified.org/

agritrade

Launched by CTA (Technical Centre for Agricultural and Rural Cooperation EC-ACP) in 2001, the Agritrade website (http://agritrade.cta.int) is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean and Pacific) – EU (European Union) relations. Its main objective is to better equip ACP stakeholders to deal with multilateral (World Trade Organization - WTO) and bilateral (Economic Partnership Agreement – EPA) negotiations. Thus it provides regular and updated information and analysis on technical aspects of the trade negotiations, developments in the CAP and their implications on ACP-EU trade, as well as on major commodities (bananas, cereals, sugar, fisheries, etc).

CTA was created in 1983 in the framework of the Lomé Convention between ACP (Africa, Caribbean, Pacific) and EU (European Union) countries. Since 2000, the Centre has been operating under the ACP-EU Cotonou Agreement. CTA's tasks are to develop and provide services that improve access to ever-changing information for agricultural and rural development, and to strengthen the capacity of ACP countries to produce, acquire, exchange and use information in this area.

For more information:

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