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Global Coffee Crisis Continues to Devastate Rural Communities Throughout the World

Though it still has not seeped into the consciousness of the general public in major coffee-consuming countries, the global crisis in coffee prices is beginning to attract attention from policymakers, advocates, and the media across the world. The real prices paid to coffee farmers per pound of coffee, which began to decline sharply in 1997, are as low now as they have been in 100 years.¹ Because many rural communities and entire national economies in the developing world depend on coffee production as a central means of sustenance, repercussions of the current crisis are felt across a wide array of sectors. People working on issues of rural development, food security, migration, the environment, education, and health care are being forced to examine the coffee crisis and consider its implications for the issues and/or regions they are concerned with.

The crisis has directly impacted an estimated 25 million coffee producers, many of whom cannot sell their coffee beans at the cost of production. Beyond those farmers, however, are an estimated 100 million more family members and seasonal laborers who also depend on coffee farming for their livelihood.² Entire national economies – particularly in Sub-Saharan Africa and Central America – depend on foreign currency from coffee exports to pay back enormous national debts.

Origins of the Crisis: Overproduction and Deregulation

Throughout the Cold War, the global coffee market was regulated by the International Coffee Agreement, an accord reached by 66 exporting and importing countries that established a floor and ceiling for coffee prices and which also set limits on the amount of coffee each exporting country could sell on the global market. In 1989, the U.S. and several other coffee-importing countries withdrew from the Agreement, rendering it unenforceable. Member countries of the inter-governmental International Coffee Organization (ICO) agreed on a new International Coffee Agreement in 2001, but without the participation of the U.S. and other major importing countries, the ICO is limited in its ability to enforce price floors or export quotas.

The decade of the 1990s saw tremendous changes in the global coffee trading system. As many coffee-producing nations – often under pressure from lending countries and multilateral lending institutions – abandoned efforts to limit their export levels and to act as

¹ “Mugged: Poverty in Your Coffee Cup,” a report by Oxfam International, September 2002.

² International Coffee Organization

intermediaries between coffee producers and foreign purchasers, the world's largest coffee roasting companies took advantage of ever-increasing supply to purchase cheaper and cheaper coffee beans.

Changes in coffee production in Brazil and Vietnam transformed the international market as well. Vietnam was a minor coffee exporter until the earlier 1990s, when, with support from international donors, the Vietnamese government began to subsidize export-oriented coffee production. Vietnam's coffee exports rose by 400% during the 1990s; it is now the world's second-largest coffee exporting nation. Brazil has long been a major coffee exporter, but throughout the 1990s it implemented new high-yield technologies that have dramatically increased its production levels.

Unfortunately, the rising levels of coffee exports throughout the 1990s coincided with a steady decrease in coffee consumption throughout the world. The increasing supply and decreasing demand have, unsurprisingly, led to a downward spiral in international coffee prices. Aside from a spike in prices in the mid-1990s due to a massive frost which destroyed much of Brazil's coffee crop, the prices farmers receive per pound of coffee have declined steadily since the disintegration of the ICA as a market control mechanism in 1989. In 1997, prices took a dramatic downward turn, bottoming out at about \$.50 per pound in the summer of 2001, which is approximately where they remain today. Harvesting and production costs outstrip the price many farmers can receive for their beans - coffee production costs in southern Mexico and Central America, for example, are estimated at around \$.80 per pound.³

Social, Economic, and Environmental Repercussions

The decline in prices to coffee farmers has tremendous implications for families, communities, and entire countries throughout the developing world. Coffee is one of the few commodities which is still most frequently produced by small farmers on plots of 10 hectares or less.⁴ Larger farms and plantations also provide a key source of income for millions of rural residents in the developing world. The current crisis has stripped families and entire communities of what was once a relatively secure means of sustenance. International agencies have documented food insecurity in coffee-producing regions throughout the world. In Central America, where a persistent drought undermines the ability of subsistence farmers to feed themselves and their families, the situation is worsening: international relief agencies estimate that more than 1.5 million people face starvation.⁵ The World Food Program reported in March 2002 that 30,000 Hondurans were suffering from hunger. In the face of the current situation, what are these families and communities doing now?

Though concrete numbers are hard to come by, it is clear that many of the 125 million people impacted by the coffee crisis are exercising the only option they have: leaving their land in search of work in urban areas or other countries. This is certainly true in Mexico and in Central America, where historical patterns of international migration have created strong cross-border social networks that facilitate the movement of displaced people across national

³ Fritsch, Peter, "Coffee-bean Oversupply Deepens Latin America's Woes," in the *Wall Street Journal*, July 8, 2002.

⁴ "Mugged: Poverty in Your Coffee Cup," a report by Oxfam International, September 2002.

⁵ Fritsch, Peter, "Coffee-bean Oversupply Deepens Latin America's Woes," in the *Wall Street Journal*, July 8, 2002.

boundaries. In May 2001, the brutal deaths of a group of twelve migrants from the state of Veracruz who were attempting to reach the U.S. by crossing the Arizona desert drew national attention. At least six people in that group were coffee farmers who left their land to find work in the U.S.

International Response

As the crisis deepens, international agencies, governments, and civil society groups are beginning to explore steps they can take in response. One hopeful element of the generally disastrous story of the global coffee trade in recent years has been the growth in the Fair Trade coffee market. Fair Trade coffee is currently the fastest-growing segment of specialty markets; it now accounts for about 2% of the total global coffee market.⁶ Fair Trade offers a “floor price” to producers (currently set at about \$1.20/lb) and fair trade marketing can be an important as a tool for educating the public in coffee-consuming nations and for generating pressure on major roasting companies. However, advocacy groups such as Oxfam note that development of the Fair Trade “niche” alone is not a long-term solution to the problem – comprehensive approaches that address the structural imbalances in the global coffee market are much needed.

Oxfam is calling on the major coffee roasting companies to finance a mass destruction program of 5 million bags of the world’s lowest-quality coffee beans as an immediate step to address the current massive oversupply of coffee. It is also calling on those companies to “commit to paying prices that provide farmers with a decent income, and manage their supply chains so as to ensure that farmers capture more benefits of the market...” As a long-term solution, Oxfam and other international development agencies insist on the need for some form of international market management to ensure stability and that the current imbalance between supply and demand does not emerge again.

One such step towards regulating the international coffee market is the Quality Improvement program recently implemented by the ICO. The initiative, which has been embraced by most coffee-exporting countries, establishes quality standards for coffee exports in hopes of reducing the flood of cheap, low-grade coffee beans on the global market. In order to represent a meaningful step towards dealing with the current crisis, however, major roasting companies and the governments of coffee-consuming nations must support the initiative and reject imports that do not meet the quality standards.

Because the crisis is now threatening major U.S. interests in the Western Hemisphere – namely, curbing undocumented northward migration flows, ensuring political stability, and stemming the production of illicit drugs – the government has begun to take some action. In the spring of 2002 the US Agency for International Development (USAID) announced the Opportunity Alliance, an initiative aimed at “promoting rural prosperity and competitiveness” in Central America. The initiative will include a specialty coffee program to provide technical assistance in export marketing and certification to coffee farmers. However, the coffee crisis reveals the stark human and environmental consequences of hitching rural development worldwide to global commodity markets as they currently function. This crisis illuminates the pressing need for innovative, comprehensive, and sustainable approaches to local development across the world.

⁶ “Mugged: Poverty in Your Coffee Cup,” a report by Oxfam International, September 2002.

