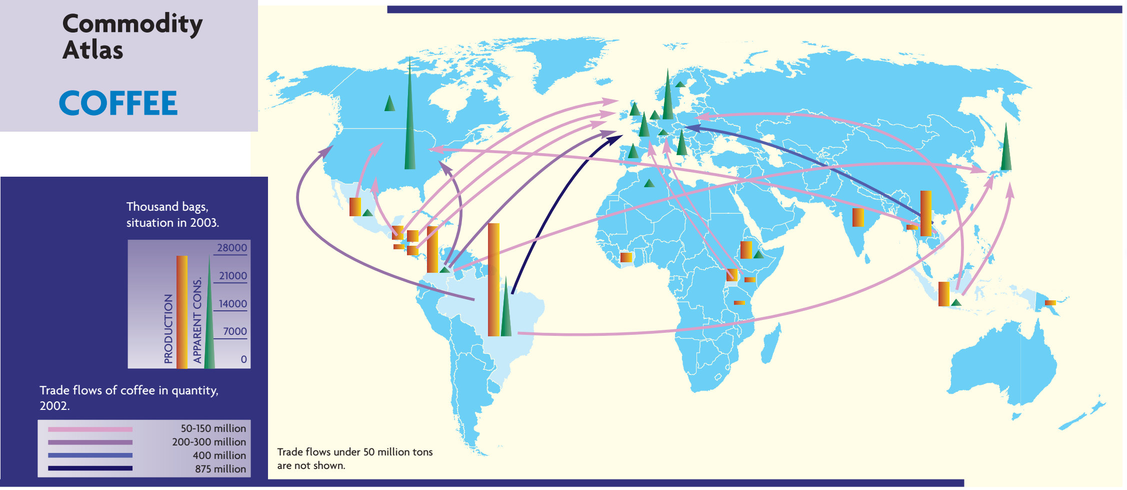


Production, consumption and trade of coffee.

The United Nations SITC (revision 2) defines coffee as coffee green, roasted; coffee substitutes containing coffee, SITC code 071.1.

Coffee is produced in various geographical settings – from the slopes of the Andes Mountains to the African plateau and forests, from South America's hilly areas to the Asian monsoon environment. While there are numerous coffee species worldwide, only two are commercially significant: *Coffea arabica* and *Coffea robusta* (also referred as *Coffea canephora*). Arabica, which accounts for two thirds of world coffee production, is an upland species requiring an average temperature of 18° to 25°C (64° to 77°F) and annual rainfall of 1,500 to 2,000 millimetres. Robusta, which accounts for a third of world production, is more widely adaptable but still requires an average temperature of 24° to 26°C and 1,000 to 2,000 millimetres of rainfall.

Small farmer harvesting coffee.

The International Coffee Organization

The International Coffee Organization (ICO) was established in 1963 to administer the first International Coffee Agreement. Since then it has administered six International Coffee Agreements, the most recent of which dates from 2001, with the goals of promoting international cooperation in the world coffee market, encouraging the development of a sustainable coffee economy and ensuring transparency in the coffee sector. In 2002, the ICO launched a coffee quality improvement programme with the aim of setting minimum grading standards and maximum moisture content for coffee exports. Consumers thus benefit from higher quality in coffee blends, while producers are able to reduce surpluses by eliminating trade of substandard coffee in international market.

Each year about 400 billion cups of coffee are drunk in the world.

The economic situation

Raw coffee is the second largest commodity export after oil. In the early 2000s, annual exports totalled $10 to $12 billion, three times the aggregated value of cocoa and tea exports. The brew is consumed by 40% of the world's population.

Although more than 60 developing countries produce and export coffee berries, fewer than 20 of them account for more than 90% of coffee output. In fact, 70% of coffee production is grown by 20 to 25 million families, mostly smallholder farmers. In countries such as Costa Rica, Guatemala and Nicaragua, more than 30% of the rural labour force is employed in the coffee sector. Coffee accounts for the bulk of export earnings in countries such as Burundi (75%–80%), Ethiopia (65%–70%), Rwanda (60%–65%) and Uganda (60%–65%).

World market

Three countries – Brazil, Colombia and Viet Nam – account for more than half of world production and exports. With 40% of world demand, Europe is the largest market for coffee, followed by the United States (which accounts for a quarter of world consumption) and Japan (10%). Alongside traditional coffee markets, a variety of niche markets are emerging. The quality is influenced not only by the species (for example, arabica or robusta) and varieties used (for instance, "blue mountain" or "bourbon"), but also by the roasting method. For example, washed arabica tends to be more appreciated than unwashed arabica. Changing consumer preferences are complemented by new sectors (such as specialty and gourmet coffees and fair-trade and organic sectors) in which product quality and differentiation (for example, through socially responsible and sustainable economic practices) are transforming consumer habits in an increasing number of countries.

Commodity Atlas

COFFEE

To learn more

UNCTAD/INFOCOMM, Market Information in the Commodities Area www.unctad.org/infocomm

International Coffee Organization www.icco.org

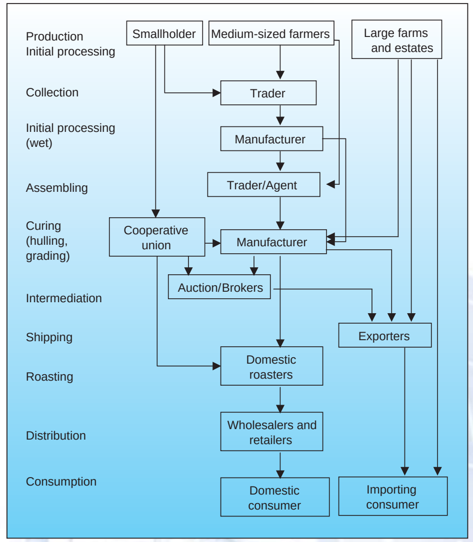
Industry structure

In the past decade, the proportion of value added to coffee in the industrialized world has increased significantly. The share of producing countries' earnings in the retail market decreased drastically by the early 2000s, to between 6% and 8% of the value of a packet sold in a supermarket. The coffee industry is quite concentrated, with companies such as Aron, Cargill, Dreyfus, Ecom, ED & F Mann, Newmann, Rothfos and Volcafé controlling most of world trade, and roasting groups such as Eduscho, Douwe Egberts, Jacob Suchard, Kraft General Foods, Lavazza, Nestlé, Philip Morris, Procter & Gamble, Sara Lee/Douve Egberts and Tchibo controlling the roasting industry.

The coffee crisis: a threat to livelihood

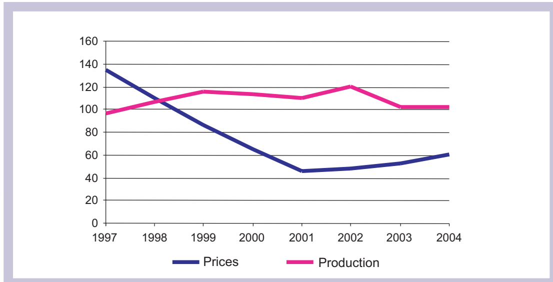
An exceptional situation occurred from 1997 to 2002, when production increased twofold in Brazil (owing to new plantations) and Viet Nam, creating a large surplus in the international coffee market. Demand growth, meanwhile, was quite flat (roughly half that of production). The wide-reaching crisis in world coffee prices can readily be traced to excess supply, with the result that accumulated stock exceeded 41 million bags in 2003. The opportunity cost for producing countries was huge: had coffee prices remained at their 1998 levels, coffee-producing countries would have earned $19 billion more between 1999 and 2002. The occurrence and severity of such a shock had serious social and economic impacts, generating macro-economic disequilibrium (for example, balance-of-payments problems) and affecting rural poverty (through rural migration, reduced school enrollments, and deterioration in food security).

Coffee marketing chain



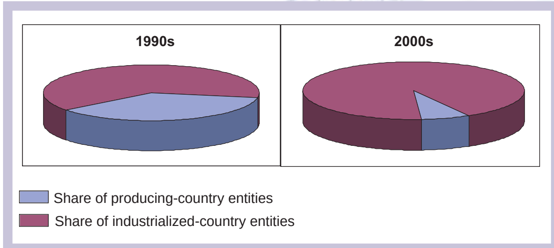
Source: De Graaff (1996); *The Economics of Coffee.*

Coffee production and prices *(billion bags, US cents/lb.)*



Source: ICCO and UNCTAD

Distribution of coffee retail share value



Source: ICCO