

ICO Executive Director Opening Remarks

UNCTAD-ICO Workshop

'Fostering Sustainable Development in Coffee-Exporting Countries'

Palais des Nations

Room VIII

Geneva, 18 February 2020

Deputy Secretary General Isabelle Durant,

Excellences,

Distinguished participants,

Dear partners and friends of the global coffee sector,

Ladies and gentlemen.

I am delighted to see such a distinguished group of experts and interested parties gathered here in this wonderful setting at the Palais des Nations.

In today's workshop we will explore together how to 'foster sustainable development in coffee-exporting countries'.

On behalf of the International Coffee Organization, I would like to extend my sincere gratitude to the United Nations Conference on Trade and Development – UNCTAD – for jointly organising this coffee related workshop with us. Without your support and dedication this would not have been possible.

I must admit that events like this workshop at the United Nations, be it in New York or here in Geneva always instil a warm sense of homecoming for us, given that the International Coffee Organization was founded under the auspices of the UN.

The negotiations of the first International Coffee Agreement, overlooking the East River, took place in 1962 and the Secretariat was established in 1963. This makes the ICO just a year or two older than UNCTAD, which was created in 1964.

From the outset both our organisations shared similar objectives: fostering the sustainable growth of trade in commodities – in the case of the ICO this is coffee, for UNCTAD a much wider basket. Growth in commodity trade that brings benefits and prosperity for exporting countries in the global South as well as importing countries in the global North.

Since then, over the past decades, with the emergence of Global Value Chains in coffee and other sectors, the face of trade has changed significantly.

This is why our respective organizations – Deputy Secretary General, I am sure you will agree - have to innovate constantly to find effective responses to structural issues of commodity sectors, such as volatile markets, new challenges – including the impact of climate

change –, while also harnessing opportunities such as those related to digital innovations.

The ICO works towards growth in global trade in coffee that provides benefits to all, including the 25 million farmers and farmworkers worldwide, while minimising the potential negative social and environmental consequences. To this end we provide the most important international forum for the coffee sector, bringing together governments of coffee exporting and importing countries, the coffee industry and development partners. Today's workshop is an excellent example of this collaboration.

The transformation of the global coffee sector has been profound. Until the 1990s it was still largely based on traditional bilateral relationships between producing countries in the tropics that export coffee and consuming countries in the North that import coffee.

Today coffee is characterised by much more complex Global Value Chains (GVC). For example, when coffee that is produced in Vietnam is shipped to Germany for processing and then re-exported as soluble to African countries, it crosses multiple borders with value added at each step.

The global coffee value chain is also characterised by increasingly closer firm-to-firm relationships. In line with what the World Bank's new World Development Report coins as the 'flow of intangibles' – we observe how more and more buyers of coffee, such as merchants or roasters, engage in long-term contracts and provide credit and technical assistance to the benefit of smallholder farmers.

We are witnessing an ongoing concentration of production in fewer origins on the supply side and a consolidation of the industry on the

processing side. Sustainability initiatives have grown, ethical consumerism is more widespread, the specialty coffee segment has emerged with dynamism and almost half of the coffee produced worldwide is now consumed outside traditional markets.

Besides the emergence of more complex trade relationships, the centuries-old dichotomy producing country – consuming country is no longer valid. Coffee, which was traditionally consumed mainly in North America and Western Europe, has become a global success story.

Over the past two decades the global market for coffee has increased by 50% and is valued at more than 250 billion US Dollars. Today, almost half of the 3 billion cups a day consumed globally are enjoyed in emerging coffee-drinking nations in Asia as well as in coffee-producing countries.

Given current trends in global population growth and a continuing convergence of per-capita consumption rates between traditional and non-traditional coffee-consuming countries, significant potential for growth of the overall coffee market still exists.

Despite many of the trend lines pointing upwards, the coffee sector is currently going through a profound crisis. The international price for coffee has been broadly falling since 2016 with current price levels almost 30% below the long-term average.

Revenues from selling coffee decline while costs for inputs, such as labour or fertilisers, have increased. As a result, many farmers struggle to break even – ICO research shows that, in some origins of Central America, as much as 25-50% fail to do. Coffee incomes decline, threatening the livelihoods of coffee farming households,

the majority of which are smallholders with female farmers being particularly vulnerable.

The economic and social consequences for coffee producing households and communities can be severe. Poverty, rural unemployment and food insecurity are on the rise; coffee farmers switch to alternative, including illicit, crops or abandon their farms; lack of economic opportunities results in social unrest or migration, especially in Central American countries.

Besides this acute crisis, a structural feature of the coffee market that has changed little over the past decades is that coffee remains a primary export commodity: over 90% of coffee is exported in green form. Meanwhile, the share of producing countries in the revenues of the global value chain has declined to less than 10%. This implies that value addition is becoming even more concentrated in importing countries. Value addition is certainly a huge challenge but also an unexploited opportunity for producing countries to add jobs and foster economic growth.

Only if this situation is addressed, will the coffee sector be able to make its critical contribution to achieving the Sustainable Development Goals.

Against this backdrop, in 2018, the [77] Members of the ICO, which represent 98% of global coffee production and two-thirds of consumption, came together and passed a Resolution that gives the Organization a strong mandate to act by mobilising its research, forum and project development function.

Since then, we initiated a Sector-wide Dialogue, an inclusive process that mobilised the coffee industry, development experts and governments from coffee-exporting and –importing countries.

The aim of this process, which to our knowledge is unprecedented in the world of agricultural commodities, is to find solutions to address, in a spirit of co-responsibility, the current coffee market situation and achieve a sector that is sustainable in the long-term.

The central feature of the Sector-wide Dialogue is an annual summit – modelled after the G7/G20 – bringing together coffee-producing and-consuming countries as well as industry leaders to build consensus on concrete actions and to allocate resources – through blending of public and private funds. I invite you to monitor the development of our Sector-wide Dialogue in the next months to assess if this model can be replicated in other commodities.

To assist stakeholders in the Sector-wide Dialogue in finding consensus and taking informed decisions, reliable data and analysis is crucial. The ICO with its world-class statistical function is the provider of independent data on the coffee sector, thereby contributing to market transparency.

At the end of last year we published the inaugural Coffee Development Report, ICO's new economic flagship publication, which includes an assessment of the root causes and impacts of low coffee prices. Importantly, it also contains an assessment of 50 potential solutions that can be taken by the industry, governments or in public-private partnership.

Since the launch of the report we have been on an international roadshow to disseminate the results and key messages in Member

countries and at international organizations. I am delighted that my team will share some of the highlights of the report in this important forum.

Both the Sector-wide Dialogue and the Coffee Development Report are generously supported by extra-budgetary contributions of ICO Members –specifically Germany and Switzerland – as well as the private sector.

Today’s discussion will not only discuss the state of the coffee sector, reflecting on the key findings of the report. We will focus our attention on two key questions in relation to the acute and structural challenges that I have described:

1. How can value addition be increased at origin?
2. How can sustainable sourcing practices be promoted effectively?

The results of today’s workshop will be crucial inputs feeding into the on-going ICO Sector-wide Dialogue, helping governments and industry stakeholders in their decision-making.

Ideas raised in this forum will also inform the forthcoming edition of the Coffee Development Report, which will focus on sustainable Global Value Chains for coffee as well as sustainable sourcing.

I once again thank all experts and interested parties to join us here today. With this I would like to conclude and wish us all a successful workshop.