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Coffee has begun a price turnaround that may signal some relief to long-suffering producer nations. Production declines brought about by a world glut that at one point drove prices down to below US $.50 per pound (standard measure for this commodity) have resulted in near equilibrium of supply and demand. Anticipated harvest for the 2004-2005 coffee year is estimated at 112 million to 116 million bags, with consumption estimated at 113 million to 114 million bags.

In September, Nestor Osorio, executive secretary of the Organizacion Internacional del Cafe (OIC), predicted price improvements during the next six to 18 months. Prices then were at US$.82, substantially better than June 2003, when they struggled at the US$.65 level. Aside from widespread abandonment of coffee farms in Central America and elsewhere, much of the credit for lower production goes to heavier-than-average rainfall in Brazil between January and July 2004, lowering production to around 35 million bags.

Brazil is the world's largest producer, followed by Vietnam, whose harvest is estimated at 13.5 million. It was the entry of Vietnam into the market as a major producer, surpassing Colombia that led to the glut. For the region that includes Mexico and Central America, low prices precipitated a production decline to about 15 million bags, from a norm prior to the crisis (see NotiCen, 2002-12-19) of about 21 million bags. More than market forces pushed prices It was not, however, solely the unseen hand of market forces that led to firmer prices. Despite lower production, there is still a formidable overhang of old-crop coffee in warehouses.

Another powerful stimulus was the re-entry into the OIC of the planet's principal consumer, the US. The US, buyer of around 25% of the coffee sold on international exchanges, has been signaling the move for several months. Before 1993, when the US withdrew from the OIC, it effectively regulated production, and thus influenced prices, by a quota system whereby individual nations knew in advance how much they could sell to the big drinker. Resuming its place at the OIC table does not necessarily mean a return to quotas for the US.

Gabriel Silva, director of the Federacion de Cafeteros de Colombia (FEDECAFE), explained that the world has changed since the days of the Pacto del Cafe, which collapsed in 1989, and which constituted the formal basis of the quota system. What the US can do now within the OIC is to cooperate in agreements between consumer and producer nations on production and quality that will have a similar regulatory effect, but a more subtle effect calculated not to run afoul of new rules of world trade that have come into being with the proliferation of free-trade agreements in the globalized environment.

Exemplary of the need for new subtleties was Honduras President Ricardo Maduro, whose recent speech to the UN stressed, "We cannot overcome our poverty if the rules of international trade are not just." He complained, "Five years ago our campesinos received 40% of the price of the

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coffee served to the final consumer. Today, they get only 9%, while the companies of the developed countries keep the difference. We applaud the decision of the United States to return to the womb of the Organizacion Internacional del Cafe, but at the same time we ask that the hundreds of thousands of families of our poor who cultivate coffee be paid better."

More than higher prices needed

The likelihood of that happening is questionable. Price increases have surpassed the US$.85 levels at which analysts would be willing to say the coffee crisis is over, but new criteria for quality imply a requirement for financial resources that could force most of the small and impoverished producers for whom Maduro spoke out of the business entirely. Even for larger, better-financed growers, the higher prices do not guarantee survival.

Said Jeff Holman, president of Exportadora El Volcan in El Salvador, "The new market prices are between US$70 and US$90 per hundredweight, it is a new reality. In the crisis, they reached US $42. But now, can we keep talking of a price crisis? The country has to resolve the effects of the past crisis. The price is sufficient if debts are restrained while the country positions itself in the specialty-coffee markets that pay more per bag, over US$100. For that, it is necessary to reinvest in the fincas (see NotiCen, 2003-01-30)." Holman called for debt restructuring over a 20-year period.

Meanwhile, the US official re-entry into the organization it abandoned 11 years ago awaits congressional approval of the US$500,000 fee for joining the 73-member OIC.

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