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LADB Staff

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Coffee Price Slump Undermines Regional Economies

by LADB Staff

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Falling world coffee production will not boost record low prices now throwing agricultural workers out of work and Central American economies out of kilter. The International Coffee Organization (ICO) in London reported recently that world exports for the first seven months of the current coffee year (October 2001 through September 2002) fell by 4%. World exports are 49.6 million bags, 2.1 million fewer than for the same period last year, but the decrease will not dent the 20 million bag inventory that consumer nations already have on hand.

In addition, Brazil has passed the period during which a freeze could threaten its crop, the world's largest, and is expected to deliver an abundant harvest. For Central America, these figures have meant prices as low as US\$1.03 a kg for their until-recently premier hard- currency earner. The price is a recent bottom in a three-year downward spiral.

This season's harvest in Guatemala, for instance, brought in US\$172 million for the 4.3 million bags produced, compared to the previous season in which 5.7 million bags earned US\$339 million, the lowest in seven years. The year before that, the crop was worth US\$600 million.

A stampede to quality

While there is no minimizing the impact of these data on the economies of the isthmus, the market is changing, creating some straws at which these countries and their financial advisors might grasp. One change is in the tastes of consuming countries. As demand for regular coffee has increased about 1.5% since 1990, demand for "specialty coffees" has grown from between 2% and 20%, the rate of increase depending on type. Organic coffee, grown without chemical inputs, accounted for the 20% increase. "Gourmet" coffee, arabica varieties, demand is up about 8%, and with that rise in demand comes a staggering increase in the value of the beans. At recent auctions, these beans sold for as much as 15 times the price of regular coffee.

In Guatemala, 33 producers sold 1,170 69-kg sacks for as high as US\$18.60 a kg. In Nicaragua, a similar auction brought more than US\$22 a kg. "Those who aren't producing specialty coffee can't compete in the current market," said Stuardo Coto of the Guatemalan Asociacion Nacional de Cafe (ANACAFE). Had they sold the same coffees on the international market, added Coto, they would have gotten less than one-tenth the prices realized at auction. Just two days before the auction, growers had announced that their income on regular coffee had dropped to levels not seen since 1995.

Spectacular though these prices are, compared with the 4.3 million 46-kg sacks the country exported for the season, the amounts sold are relatively insignificant. More important is that Central America and the Caribbean export 41% of the world's output of these specialty coffees, and therein lies a strategy.

At a forum titled "Confronting the Economic Crisis, Greater Poverty and Hunger in the Rural Area: Coffee Reform," International Development Bank (IDB) expert Michael Collins stressed that the country must take advantage of the growth of specialty markets and exploit its advantages in coffee production. He recommended development of a seal of quality along with a program of discarding substandard product. The program would include mechanisms of compensation for producers of that portion of the crop that had to be withdrawn. Verification procedures would be built in to lend credibility to the program.

The idea, Collins said, is to motivate the market to distinguish and pay for quality. He pointed out that world commodity markets account for 93% of global production, the "regular" coffee. This is the coffee whose price is tanking, whose fundamentals are beset by high surpluses and near-stagnant demand. The remaining 7% is the "specialty" variety, the segment of the market for which supply continues to lag behind demand, and the segment for which the region produces abundantly. This strategy is only part of a more comprehensive reform envisioned by the organization that put on the forum, Plataforma Agraria.

Estimating losses over the past three years at US\$688 million, and 337,000 jobs, directly and indirectly, the organization seeks a reform for the industry that includes land redistribution, access to credit, investment, and help with marketing and processing. Not least of their concerns is the economics of the industry as a whole.

Attacking the global realities, ANACAFE representative Jose Lopez characterized the market as a US\$58 billion enterprise in which producing countries get just US\$5 billion. Nor is the economic damage limited to the past. ANACAFE president Luis Montenegro has said that these low prices will have negative consequences for next year's cycle as well, "since it is very probable that they won't have fresh resources to be able to pay for inputs, labor, and to confront all the costs."

Regional responses vary Lack of resources for future survival is already being dealt with in Honduras. There, the government has solicited and received a loan from Taiwan of US\$20 million, which it will pass on to producers in the form of a US\$6 per bag subsidy. Honduras is one of only about thirty countries that recognize the Taiwan government, and as such was able to lean on the island's largesse. Like their Guatemalan counterparts, Hondurans do not see a cure for the problem in a single measure.

Said Dagaberto Suazo of the Central de Cooperativas Cafetaleras, "As a country, we are putting before the ICO a plan to remove from the market coffee of bad quality and to mark bags with the formula and harvest date, because coffee that has been in storage for ten years is being distributed." Costa Rica has already initiated a program to upgrade production. Substandard coffee is being burned as fuel for a cement plant.

Coffee workers in Nicaragua, meanwhile, have taken their economic despair to the streets. The government's suggestions for quality upgrades and debt-restructuring plans for producers have done nothing to alleviate the hunger of workers, many of whom have been reduced to diets of green bananas. About 100 km north of Managua, workers and producers blocked the Panamerican

Highway. Police attempts to disperse the crowd resulted in two agents injured, four demonstrators arrested, and assurances from the demonstrators that they would be back in force if the government failed to respond to their plight (see NotiCen, 2001-07-26).

Despite Central American efforts at product improvement, in the end the longer-term solution to their coffee crisis may rest with Brazil, source of 37% of world coffee output. That output will stand at 120 million bags for the 2002-2003 year, reports the ICO, while demand will be about 106 million. If 2003-2004 Brazilian production falls by 40%, as the Economic Institute of Sao Paulo estimates, demand could exceed supply for the first time since 1998.

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