The Coffee Crisis Continues

Situation Assessment and Policy Recommendations for Reducing Poverty in the Coffee Sector

Though recent improvements in the international price of coffee provide some relief to small-scale coffee farmers and farm workers, the dynamics of the coffee market have not shifted in ways that guarantee long-term stability for those at the bottom of the supply chain. With a seat at the table in the International Coffee Organization and a commitment to further incorporate coffee-related programs into its development agenda, the US has the opportunity to take a leadership role in addressing the continuing coffee crisis. By expanding its commitment to rural finance and technical assistance programs, and facilitating farmer and farm worker participation in international debate, the US government can empower small-scale farmers and farm workers to take full advantage of the improved market conditions, leaving them less vulnerable to the boom and bust cycles of the market.

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Executive summary

Oxfam America launched its coffee campaign on the steps of the US Capitol in September 2002. At that time, the international price of coffee had dropped to a 30-year low, placing already vulnerable small-scale coffee farmers and farm workers at the brink of a humanitarian crisis. Two and a half years later, the context of the coffee crisis has changed. The international coffee market has begun to recover, as reflected in higher international prices for coffee. But a few extra cents does not signal the end of the coffee crisis. Small-scale coffee farmers and farm workers remain extremely vulnerable to the coffee market’s price swings and the disproportionate market power of local buyers, international traders, and multinational coffee companies.

After two years of campaigning for change, Oxfam America welcomed the State Department’s September 2004 announcement that the US would rejoin the International Coffee Organization (ICO). US membership in the ICO became official in February 2005. Meanwhile, the US Administration has shown encouraging signs of its commitment to addressing the coffee crisis. As part of its development policy, the US Trade Representative’s office has convened an interagency task force to address the crisis.

As the US builds upon its commitment, it is crucial that the Administration and Congress advocate for programs that benefit small-scale farmers and farm workers. The US must work together with international policy makers, the coffee industry, and non-governmental organizations (NGOs) to implement market-based strategies that stabilize prices, provide access to farm credit, provide technical assistance, finance, and market information, create meaningful diversification options, and promote farmer and farm worker representation in international debate.

This paper has two purposes. It represents Oxfam America’s situation assessment of the most pressing issues facing small-scale coffee farmers and farm workers today. And it provides recommendations to the US government about how these needs can be addressed.

Oxfam America urges the US government to focus its attention to the coffee sector on three priority areas: price stability, development assistance for small-scale farmers and farm workers, and small-scale farmer and farm worker representation within the international debate.

Situation Assessment: Small-Scale Farmer Priorities

Oxfam identified the six most pressing needs of small-scale farmers: price stability, access to finance, market access, technical assistance in quality improvement and diversification, organizational strengthening, and participation in international debate.

Despite the recent increase in the international price of coffee, an adequate, sustainable, and stable price of coffee is a priority concern for small-scale farmers. Farmers’ core demand is a coffee price that covers the costs of production and some level of investment and savings. Niche markets deliver
higher prices but these may disappear as supply increases without premium guarantees. High transaction costs, such as taxes, technical assistance fees and certification, can make a farm or organization unprofitable when combined with low prices.

Farmers and their organizations face the continual challenge of finding affordable credit. Farmers need credit to cover farm maintenance, quality investments and debt refinancing. Farms are being seized due to extreme indebtedness. The recent rise in the international price of coffee has increased marketing cooperatives’ need for working capital to finance purchases from their members. Independent of what the price on the market might be in a given moment, marketing cooperatives need financing to invest in capital improvements. These improvements are essential for quality production and making pre-harvest farm credit available to farmers so that they can make investments that increase yields and improve quality.

More and more, farmer organizations are making direct links with buyers in consuming countries. A need exists for developing wider market access for emerging cooperatives and easing travel restrictions for sales trips. A system for relaying reliable information on markets and production trends should be created. Much of the information comes from under-funded coffee institutes and ad hoc market contacts. Small-scale farmers have little access to the best information, unlike large traders.

Many farmer organizations have made considerable strides in quality improvement. Farmers, especially those in very remote areas, need training on harvesting properly and managing their farms so that they maximize quality. Many farmers have never tasted their coffee and do not understand how to control taste and off-flavors. Basic cupping technology should be disseminated to small-holder organizations.

Farmers and farm workers need more long-term financial and institutional resources in order to form and strengthen basic organizations. Rural organizations face challenges finding and retaining skilled staff. Farmer organizations need financial and organizational management capacity to operate as successful businesses in the competitive and marginally profitable world of green coffee exporting.

Livelihood diversification provides one answer to low commodity prices. Finding profitable alternatives to cash crops like coffee, however, is exceedingly difficult. In lieu of profitable legal options, farmers are diversifying into illegal crops like coca and poppies, which can deliver three to 10 times the price of coffee. Farmers that lose their land often migrate to find work in cities or other countries. Women and children are increasing their workloads to cut costs. There are many diversification projects, but they have achieved little success relative to the overwhelming need.

**Situation Assessment: Farm Worker Priorities**

Coffee farm workers are among the hardest hit by the coffee crisis. Even when the price of coffee rises, many farm workers face poor working conditions, low wages, and contractual abuses. The coffee crisis has exacerbated these problems through widespread layoffs and cost cutting by plantation owners.
Coffee buyers and national governments must take strong action to make sure the concerns of farm workers are a high priority.

Advocates must help improve conditions and benefits for both temporary and permanent workers, seek fair treatment in disputes and above all, encourage economic development for those unemployed by the crisis. In some cases, there are national laws that support the rights of workers. But they are not enforced. Because few options exist, farmers and farm workers turn to migration, increased dependence on remittances from family members abroad, and involvement in the informal economy.

Farm worker exploitation can be linked to concerns about food security. Some workers have plots of land for subsistence, but many are dependent on other income sources, community support networks, or food assistance. Women and children are the most vulnerable populations in situations where food security is not guaranteed. Given the central place of coffee in many economies, the amount of research done on working conditions on plantations is proportionately very low. This is due in part to the difficulty finding farm workers in coffee countries who feel secure enough to talk openly about their situations, as well as researchers who feel secure accessing pertinent information.

**Policy Recommendations**

The US Administration can take great strides in addressing the coffee crisis by pushing these priority issues at the ICO and leading by example through US government programs and policy. As the agency charged with executing many US development programs, the US Agency for International Development (USAID) is positioned to play an important role in the administration’s support of small-scale coffee farmers and farm workers. It is crucial that USAID, along with other agencies, continually monitors the needs of small-scale producers and farm workers as the context of the coffee crisis evolves. The agency must debunk the notion that the crisis is over so that coffee does not drop to a low priority.

Based on its situation assessment of the new context of the coffee crisis, Oxfam America urges the US government to focus its attention on the coffee sector on three priority areas: price sustainability, development assistance for small-scale, family farmers, and farmer and farm worker representation in international debate.

**Price sustainability**

More than any other factor, sustainable, stable pricing at the farm level most directly affects the incomes of small-scale farmers. It is therefore crucial that price and price stability form a key component of the US government’s response to the coffee crisis. The ICO is one forum for debate on sustainability initiatives. The US delegation to the ICO must stress the need for market-based price mechanisms for rewarding farmers for adding ‘sustainable value’.

Small-scale farmers lack the market information they need to make informed decisions about production. This includes information about global production trends as well as nuanced and accurate information about consumer demand for organic and specialty quality coffee. Without such information and the understanding of how to employ it, farmers and farmer organizations are unable
to plan for price volatility. The US can help standardize information systems in the coffee sector to aid supply management and market stabilization.

Sustainable coffee certifications, including organic, Fair Trade, and Rainforest Alliance certification, are market-based initiatives that leverage consumer demand to add value to coffees produced ‘sustainably.’ The argument that increased sales opportunities will make certification cost-effective over time glosses over the ability of producers to cover the cost of implementation and management of certification standards. Without a structurally guaranteed price incentive, these programs will result in profit incentives for buyers and marginal benefits for farmers given the added costs and requirements. Farmers and development aid are flocking to niche markets. As supplies of certified coffee rise, so will premiums fall unless held to a floor price or minimum differential.

While not a panacea for the need for sustainable pricing across the coffee sector, Fair Trade certification is an important development tool that should be embraced and supported by US agencies. USAID can support Fair Trade by incorporating it into its direct support of farmer marketing organizations, as well as collaborative projects with private-sector importers and roasters, both large and small.

**Development Assistance for small-scale farmers**

Many small-scale farmers entered into the coffee crisis shouldering significant debt at above market rates. Those who survived through the lowest prices continue to bear the heavy burden of this obligation. Meanwhile, higher prices have increased the farmer-owned marketing cooperatives’ need for working capital to buy coffee from farmers. The US government should increase support for organizations which have partnered with the public and private sectors to deliver much needed credit to small-holder coffee farmers. USAID has noted the importance of making finance available for small to medium sized enterprises (SMEs) in developing countries and has made funds available to support access to financial services for small-holder coffee farmers. USAID and other agencies should increase the level of support for SME financing in the coffee sector through facilities like USAID’s Development Credit Authority.

Family farmers who count on coffee as their main source of income fail to reach their potential because of lack of know-how. Intensive and long-term training programs can help small-scale farmers overcome this barrier. Technical assistance and other commercial-oriented support must include quality improvement training, sales and marketing skill building, English training for sales and marketing managers, support of participation in trade shows (including visa assistance for travel) and farmer and cooperative management exchanges. State Trading Enterprises (STEs) or national marketing boards can provide vital farmer services such as price stabilization, credit and technical assistance. Regulation of STEs is being discussed in the WTO Agricultural framework and efforts should be made to ensure that producing country governments are able to maintain or strengthen STEs if deemed their best option.

While many small-scale coffee farmers have found other sources of income to augment coffee sales, few have the training, technical assistance, financing or market access to take these alternative income sources to the scale needed to generate significant income. USAID should prioritize economic diversification to
address the broader problems of unsustainable agriculture and unemployment in coffee-based economies. In Congress, support for diversification programs can come in part from appropriations for USDA’s Alternative Crops program and Plan Colombia. International organizations also provide an important arena in which to address diversification. The US can provide monetary and technical support for diversification programs within the ICO and Common Fund for Commodities.

Participation in International Debate
While representative organizations like the Global Alliance on Coffee and Commodities (GLACC) do exist, legitimate small-scale farmer and farm worker organizations typically have limited participation in the international forums for addressing the coffee crisis. Barriers to participation in international debate include language, ability to travel to international meetings, and human resources necessary to monitor the situational developments. In addition to support through capacity and technical assistance programs, the US government can support producer and farm worker participation in international debate by supporting organizations that provide those forums and insisting that other institutions, including the ICO, provide such opportunities.
List of interviewees

Walter Rodríguez Vargas
Asociación de Pequeños Productores de Talamanca, Costa Rica

Lucas Silvestre García
Asociación Guaya'b, Guatemala

Miguel Paz
CECOVASA, Peru

Preston Motes
Chemonics, USA

Frank Hicks
Consultant, Costa Rica

Kari Hamerschlag
Consultant, USA

Bill Harris
Cooperative Coffees, USA

Antonio Cordón
CRECER, Guatemala

Doug Hellinger
Development Group for Alternative Policies, USA

Robert Mack
EARTH University, Costa Rica

William Foote
Ecologic Finance, USA

Eric Poncon
ECOM Trading, Mexico

Karen Cebreros
Elan Organic Coffees, USA

Guillermo Denaux, Sn.
Fairtrade Labelling Organisations, El Salvador

Gerardo de León
FEDECOCAGUA, Guatemala

Sigfredo Benítez
FUNDACAFE, El Salvador

René Rivera Magaña
FUNDE, El Salvador

Rodney Nikkels
Green Development Foundation, The Netherlands

Jason Potts
International Institute for Sustainable Development, Canada

Jonathan Rosenthal
Just Works Consulting, USA

Ann Vaughn
Legislative Assistant, Office of Congressman Sam Farr, USA

Dagoberto Suazo
La Central (CCCC), Honduras

Jerónimo Bollen
Manos Campesinas, Guatemala

Eli Landa
Oxfam America, El Salvador

Gawain Kripke
Oxfam America, USA

Katherine Daniels
Oxfam America, USA

Stephanie Weinberg
Oxfam America, USA

Sonia Cano
Oxfam International/ Global Alliance on Coffee and Commodities, Honduras

Chris Wille
Rainforest Alliance, Costa Rica

Ernest Van Punhuys
Technoserve, Nicaragua

Kimberly Easson
TransFair USA, USA

Yamile Slebi
TransFair USA, USA

Muriel Calo
Tufts Global Development and Environment Institute, USA

Tim Wise
Tufts Global Development and Environment Institute, USA

Daniele Giovannucci
Sr. Consultant to International Organizations (UN & World Bank), USA

David Griswold
Sustainable Harvest, USA

Ben Corey-Moran
Thanksgiving Coffee, USA