The Coffee Paradox: Global Markets, Commodity Trade and the Elusive Promise of Development
Authors: Benoit Daviron, Stefano Ponte
Zed Books, 2005

Overall introduction to the Coffee industry

Key words: Coffee paradox, international trade, commodity

Every day, about 2.25 billion cups of coffee are consumed in the world (Dicum and Luttinger 1999: ix). Yet, the act of – and symbols attached to – coffee drinking are not the same as they were twenty years ago. New consumption patterns have emerged with the growing importance of specialty, fair trade, organic, and even 'bird-friendly' coffees. Coffee bar chains have spread dramatically, although the relative coffee content of the final consumption 'experience' in these outlets is extremely low. Coffee bar chains sell an ambience and a social positioning more than just 'good' coffee. The global coffee chain has gone through a '*latte* revolution', where consumers can choose from (and pay dearly for) hundreds of combinations of coffee variety, origin, brewing and grinding methods, flavouring, packaging, 'social content', and ambience. Retail coffee prices continue to rise in the specialty market, and even in the mainstream market they have not decreased nearly as much as international coffee prices have. Roasters capture increasing profit margins. At the same time, coffee farmers receive prices below the cost of production.

The global value chain for coffee is currently characterized by a 'coffee paradox': a 'coffee boom' in consuming countries and a 'coffee crisis' in producing countries. A paradox within this paradox is that the international coffee market is awash in coffee of 'low quality', while there is a dire shortage of 'high quality' coffee – and it is the latter that is generating sales growth. How can we explain such divergent dynamics?

Some analysts have depicted the current market situation in terms of the law of demand and supply: there is simply too much coffee in the global market. They argue that chronic

oversupply – facilitated by the breakdown of the International Coffee Agreement in 1989 – arose from increased production in Brazil and Vietnam. Other analysts have explained the coffee crisis in terms of market power. They argue that the growing gap between the price of the raw material (the coffee bean) and the final product is the result of oligopolistic rents captured by an increasingly concentrated roasting industry.

Rather than conceptualizing coffee in different markets as beans 'more or less roasted', we propose to treat coffee as the sum of attributes produced in different geographical locations and by different actors along the value chain. Thus 'market power' is not only a question of market share but also one of capturing the most valuable attributes while undermining the value of the attributes that need to be purchased. A new consensus is emerging both in the North and South among donor communities, policy makers, academics, and even some civil society groups – developing countries should 'trade their way out of poverty'. If tariff barriers were removed, market access would improve. If we stopped subsidizing developed country farmers, poor farmers in the South would benefit. If technical assistance was provided, non-tariff barriers such as food safety standards would be overcome. If only trade rules were fair, poverty in the world would be reduced. If producers in the South were included in global value chains, they would learn from their buyers and upgrade. There is a grain of truth in each of these statements, and some problematic aspects. Many low-income countries have been for decades (and sometimes centuries) producing and exporting tropical commodities, such as coffee, that encountered small tariff and non-tariff barriers, little or no competition from farmers in the North, and have been part of global value chains. They are still poor.

International trade has indeed grown dramatically in the last two decades in the global economy, and trade is an important source of revenue in developing countries. These countries are estimated to generate more than thirty times revenue per capita from exports than they receive in aid – and aid flows are decreasing (Oxfam 2002a: 47;

OECD/DAC database). Yet, most low-income countries still depend heavily on exports of primary commodities – which have lagged behind the growth of global income. As a result, low-income countries account for only three per cent of income generated through exports in the global economy (UNCTAD 2002).

Coffee is produced in more than 50 developing countries and involves several million small farmers. Historically, coffee exports have been linked to several development 'success stories': Brazil at the end of the 19th century, Colombia and Costa Rica in the 1920s, Kenya and Côte d'Ivoire in the 1960s and early 1970s. Some of these stories have been time-bound, others have provided the basis upon which further growth and diversification occurred. In many other stories, the promise of development has been elusive. Furthermore, there has been no equivalent success story in recent decades. In the governance of the global value chain for coffee, producing countries used to play an important role. Since the late-1980s, this has not been the case. Governance is firmly in the hands of consuming country-based actors in the North, especially roasters.

The key issue is not that these countries are not trading, but rather that they are not gaining much from trade. In other words, these countries are stuck in a 'commodity problem' that has made 'development' an elusive target. They produce similar agricultural products and labour-intensive manufactures that are flooding global markets and depressing prices. The 'classical' questions that have been asked in relation to 'solving' the commodity problem are: Can the gains from commodity exports be increased? Otherwise, how can low-income countries break away from relying on exports of primary commodities?

These pertinent questions have been at the centre of commodity trade analyses for at least half a century. We argue that the promise of 'development' is an elusive one partly because global value chains are increasingly 'driven' by large actors based in the North,

and partly because low-income countries are stuck in producing and exporting goods that are valued only for their *material* quality attributes. *Symbolic* and *in-person service* quality attributes which provide higher value added are generated in consuming countries in the North – or by Northern actors. We explain this discrepancy in value through a combination of historical political economy, global value chain analysis, and convention theory.