DEVELOPMENT: Agricultural Subsidies Lock-In Coffee Farmers - Report

[IPS Inter Press Service]
March 11, 2004
Emad Mekay

DEVELOPMENT: Agricultural Subsidies Lock-In Coffee Farmers - Report

Emad Mekay

WASHINGTON, Mar 11, 2004 (IPS) - The World Bank is blaming over-supply from coffee producing countries and protectionism in rich nations for complicating a worldwide coffee crisis that has dealt a blow to some 20 million farmers globally. Agricultural subsidies paid by northern governments to their own farmers means that coffee-growers are unable to leave the depressed sector to grow other more lucrative crops because they cannot effectively compete, adds a new report from the Bank. Watchdog groups say the problem's roots can also be found within international coffee companies that do not pay enough to poor producers. According to the report released Thursday, some 20 million coffee growers and millions more people who depend on coffee for their livelihoods have seen their incomes and lives buffeted as coffee prices slumped to their lowest levels in a century. More than 50 nations, almost all of them in the developing world, produce and export coffee, which is grown mainly by smallholders using just a few hectares of land. Slumping prices worldwide have increased poverty in many countries, cutting valuable export revenues. The estimated economic loss to small producers is 4.5 billion dollars a year, says the Bank. Because of their dependency on coffee exports, Central America and Africa have been the hardest hit region, seeing small farmers drop into poverty and workers displaced, adds the report, 'Coffee Markets: New Paradigms in Global Supply & Demand'. Hard-hit countries have also experienced defaults in the banking sector among institutions that lent to coffee farmers or organisations. Particularly in Africa, broad government anti-poverty measures have been reduced because of the lack of cash, according to the report. "The effect of the coffee business in poor countries is quite striking," says the report. In Nicaragua, it adds, between 1998 and 2001 overall poverty rates dropped 15 percent, except among people in the coffee sector, where poverty rose 2.4 percent. Primary school enrolment in the country fell five percent in households involved in coffee production, while it grew 10 percent among all other rural households, it adds. The situation has been even more dramatic in other coffee-producing countries. Farmers in India's southern state of Karnataka, hit by low coffee prices and a loss of markets, have reportedly started taking their own lives. "It goes without saying that with a crop of such significance for some countries, the destabilising effect of the price crisis sparks concern precipitating bank failures, public protests and dramatic falls in export revenues," concludes the report. The 150-page document argues that oversupply in world market is the main reason for the crisis, but also blames "structural shifts in the markets" and protectionism in rich nations. "Trade protectionism in industrial country markets, particularly continued high levels of subsidy in industrial countries for their own farmers, pose additional obstacles to diversification into other activities or into higher value or processed products, and thereby leave producers with limited access to these markets." Brazil, Vietnam and Colombia are primarily responsible for an over-supply of coffee, adds the report, accounting for about 61 percent of total production and, in 2002, 55 percent of global exports. Roasters have responded to the shift in supply by adapting their technology to increase their use of lower-cost natural arabica and robusta coffee varieties, says the Bank. Some civil society groups have responded by pressuring roasters in rich nations. In September 2002, Oxfam launched its 'Coffee Rescue Plan', which called on the world's major coffee roasters -- including Kraft Foods, Nestle, Procter & Gamble and Sara Lee -- to increase the market for Fair Trade coffee, bring the current oversupply of coffee back into line with demand, and to help ensure that farmers are able to earn a decent living. The report predicts the situation will likely improve because of long-term historic cycles that will lead to supply eventually aligning more closely with market demand, so that prices will recover somewhat. But it warns that a price recovery would only be temporary. "While conditions for producers will certainly improve as that happens, it will not signal an end to their problems because the economic causes of these cycles suggest that they are likely to continue to repeat themselves," says the report. It recommends that governments in producing nations be agile in creating favourable business environments to allow farmers to successfully adapt to the new demands of the marketplace. These would include necessary research, risk management and diversification, together with long-term programmes to strengthen and train producer and trade organisations. The Bank also recommended broadening the range of products produced by the agricultural sector and improving production and marketing systems. "There is, therefore, no 'magic bullet', and long-term solutions lie in moving towards more sustainable production and marketing practices, and overall rural development," said Kevin Cleaver director for agriculture and rural development at the Bank. But activists say the solution should come from coffee companies in rich nations. In December 2003, Oxfam said those firms were doing little to help struggling farmers despite a worldwide outcry. "These companies continue to make massive profits while coffee farmers get poorer and poorer," said Phil Bloomer, director of the 'Make Trade Fair' campaign at Oxfam. "The coffee-based economies of entire countries are now near collapse. More and more growers, with few alternatives, are turning to drug crops or are facing personal ruin. Millions of women are unable to support themselves or their families." Oxfam says the companies should establish guidelines for buying coffee to ensure farmers are paid a decent price, or help farmers diversify into other crops. (END/2004)