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Coffee growers seek help as prices, demand fall

By Tony Smith
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PATROCINIO, Brazil - Surrounded by coffee-lovers from as far afield as Baltimore and Bulgaria, the coffee farmer Luiz Norberto Paschoal removes the frothy top off one last cup of espresso with a theatrical slurp. Savoring the taste and aroma for just a few seconds, he then expels the liquid in a thick brown jet into a bucket at his feet.

It is the end of a cupping -- the coffee industry's equivalent of a wine tasting -- at Paschoal's 7,100-acre farm, and the group of buyers, roasters and critics eagerly question him about sorting, drying, roasting and blending his high-value, espresso-quality arabica beans.

"If I didn't do this type of marketing, I would be selling a mere commodity," he said. "And how would I survive just selling a commodity? I'd be broke, just like so many others."

And the number of those who are broke is growing rapidly.

With coffee prices at a 30-year low, the industry is facing perhaps the worst crisis in its history, trapped in a vicious circle of falling demand, surplus production and collapsing prices.

Farmers, traders, roasters and retailers all agree urgent action is needed to prevent a slide in coffee quality and the loss of perhaps millions of jobs. However, there is no consensus on what to do.

The luckier ones like Paschoal, with enough capital to invest in technology and in marketing top-quality blends for the growing niche market of specialty coffees, are surviving and occasionally even thriving.

In recent months, Paschoal has installed sorting machinery in new warehouses at his farm, Fazenda Boa Vista, in the central state of Minas Gerais. He is also busy concocting a high-quality blend of the farm's DaTerra coffee for the Brazilian market.

But for the vast majority of the world's 25 million coffee growers, particularly those in the poorest countries of Africa and Central America, the outlook is bleak.

Coffee is the world's second most widely traded commodity after oil and provides jobs for millions in some of the world's poorest countries.

In Central America, the World Bank estimates that 600,000 coffee workers had recently lost full-time or temporary jobs, prompting a flight of Guatemalans and Hondurans to Mexico and a separate exodus of Mexican farmers into the United States.

In Colombia, where coffee revenues have declined by 50 percent over the last 10 years, many growers are switching to more profitable -- and less benign -- crops like coca.

Large farms in Brazil, the world's largest producer where the industry employs 3 million people, have

slashed the work force by as much as 90 percent through mechanization. Several small- and medium-sized cooperatives, which cannot afford to buy machinery because prices are so depressed, are on the brink of bankruptcy.

Of the \$3 an American shopper pays for a tin of coffee at a retailer like Wal-Mart, Paschoal estimates coffee farmers receive an average of about 35 cents.

"Farmers need volume or price to survive, and today they have neither," Paschoal said. "The fuse is lit, but the time bomb has yet to explode."

At the root of the problem is oversupply. The 2001-02 harvest yielded 115 million sacks of coffee, while consumers worldwide drank 105 million, according to data from the International Coffee Organization. While supply is growing by more than 3 percent, demand lags at just more than 1 percent.

Many farmers blame Vietnam, which from 1990 to 2000 planted more than a million acres of robusta beans, raising its annual production to 950,000 tons from 84,000, overtaking Colombia as the world's No. 2 producer, and flooding the market with cheap beans.

Brazilian coffee farmers, freed from restrictive quotas after the International Coffee Agreement collapsed in 1989, also doubled their robusta production over the last decade to almost 11 million bags by last year.

Marcelo Vieira, president of Brazil's specialty coffee association, said, "The problem is not Vietnam, but structural imbalances in the industry."

Not only are farmers harvesting too many beans for stagnant demand, but some big coffee roasters, eager to maintain profit margins, have tweaked their blends, reducing the percentage of high-quality arabica beans and replacing them with cheaper coffee from robusta beans.

That, Vieira complains, is like shooting yourself in the foot. Because robusta beans have a harsher taste, consumers are being turned off, coffee farmers say. As a result, demand has fallen further, taking prices down with it. As a result, farmers have less cash to invest in maintaining the quality of their product.

"The only way out of this is to promote coffee and get people the world over drinking more," Vieira said. "That's what the big players must do, rather than just focusing on the next quarter's results and effectively destroying the market."

The four big multinationals that control the global coffee market -- Nestle, Kraft, Sara Lee and Procter & Gamble -- say they have not decreased the quality of their blends.

Procter & Gamble's top-selling Folger's brand is a \$13 billion business in the multinational's portfolio, a company spokeswoman, Tonia Hyatt, said.

"We have grown sales year after year," she said, "and I don't think we would have done that with poor-quality coffee."

Yet the big roasters do appear increasingly concerned about promoting specialty coffees and being seen to buy top-grade arabica beans from farmers at a fair price.

Procter & Gamble recently offered a new premium brand called Millstone, which is certified under the industry's Fair Trade protocol, meaning farmers get a minimum \$1.26 a pound for their beans, more than double the current average price of 52 cents a pound for green coffee.

"It's terrific news," said Sabrina Vigilante, the marketing coordinator for the Rainforest Alliance, a nonprofit organization that pioneered tropical timber certification and has joined the groups campaigning to get Third World coffee farmers a better deal.

"When one big company makes an announcement like that, you automatically see a whole lot of momentum," she said. "It's one of the most valuable things P&G, Kraft, Nestle or Sara Lee could do for the market."

While sustainably farmed coffee at the moment only accounts for about 15 million of the nearly 3 billion pounds of coffee consumed worldwide, it is a niche that Vigilante expects to double next year.

Since 2000, about 140 coffee companies have started offering fair-trade blends through 10,000 outlets in the United States, according to a recent report by Oxfam, a private charity concerned with fighting poverty.

"Ultimately, the consumer will decide if Millstone is a niche product or not," Hyatt said.