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Coffee Production in Africa and the Global Market Situation

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1. Introduction

Coffee producers in Africa accounted for about 12% of global supply and less than 11% of global exports of the product for the 2009/10 season. These contributions to the global coffee market are almost equal to Indonesia's, the third largest world producer of the commodity. Notwithstanding the small contribution of African countries to the global coffee market, the commodity constitutes a large proportion of both GDP and exports share in some of the continent's small economies. For example, in Ethiopia and Rwanda, coffee exports generated about 26% and 22%, respectively, in export revenue in 2009. Particularly notable, coffee production is predominantly produced by small scale farmers who contribute more than 95% of total production in Ethiopia. Therefore global coffee market conditions have important implications for growth and poverty reduction in the country.

Given the importance of coffee in some of Africa's economies, this brief assesses the recent developments in the global coffee market. It also draws some conclusions on the implications of such developments on coffee producing countries in Africa. This brief is organized as follows: Section

2 covers price developments. In Section 3 we briefly discuss the important issues for African coffee producers before attempting to draw some conclusions on the economic implications of the recent market developments in Section 4. Finally, in Section 5 we look at the global prospects for African coffee producers and conclude.

2. Recent Price Developments in the Coffee Market

The trends in the composite coffee price mask significant differences among the various coffee types. Reduced supplies of Arabicas from South and Central America, due to unfavorable climatic conditions, disease and structural constraints during the 2008/9, has increased the price differential when compared to Robustas. Whereas Robusta prices declined from their peak of US\$105.28 per 60kg bag in 2008 to a low level of US\$67.25 in March 2010 before recovering to the June 2010 price of almost US\$77, Arabicas have trended upwards. In particular, the recurrence of the coffee berry borer in Colombia has driven the price differential between Robustas and Colombian Mild Arabicas from about US\$43 to more than US\$142 per 60kg bag (Chart 1).

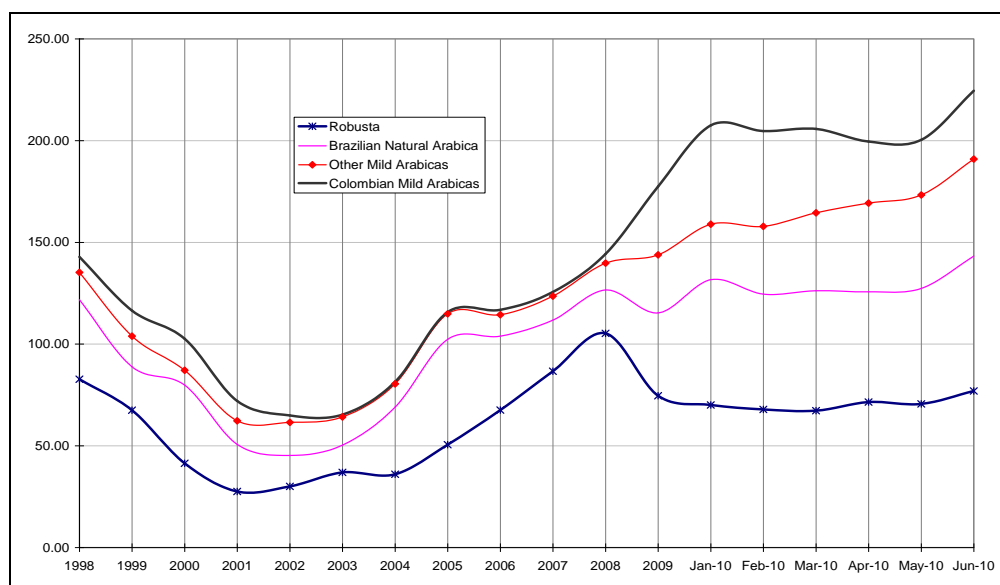
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Chart 1: Average Daily Price Trends, 1998 - 2010



Source: AfDB based on data from International Coffee Organization
 Notes: Average weighted prices in New York, German and France

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In addition to the price differentials between the various types of coffee, the New York market has consistently offered higher prices compared to the markets in German and France. For instance, in June 2010 the New York market offered US\$229.06 for Colombian Milds compared to US\$220.75 on the German market. On the other hand, Robustas fetched

US\$82.51 on the New York market compared to US\$75.78 on the French market. The only exception in this trend is with regard to Brazilian Natural Arabicas. Given this situation coffee producers will be affected differently depending on the type of coffee they produce and the market destination for their product (Table 1).

Table 1: Coffee Price Indicators (1998 – 2010 June)

Annual/ monthly averages	ICO Composite price	Colombian Mild Arabicas			Other Mild Arabicas			Brazilian Natural Arabicas			Robustas		
		Market		Daily weighted average	Market		Daily weighted average	Market		Daily weighted average	Market		Daily weighted average
		New York	Germany		New York	Germany		New York	Germany		New York	France	
1998	108.95	142.83	145.58	142.83	132.25	144.09	135.23	121.81	130.80	121.81	83.93	80.81	82.67
1999	85.71	116.45	114.17	116.45	101.54	110.87	103.90	88.84	94.17	88.84	67.64	67.23	67.53
2000	64.24	102.60	99.80	102.60	85.09	92.89	87.07	79.86	83.67	79.86	42.12	40.36	41.41
2001	45.59	72.22	68.24	72.05	61.94	63.14	62.28	50.52	52.42	50.70	27.30	27.49	27.54
2002	47.74	65.26	64.78	64.90	60.43	62.31	61.52	45.09	45.92	45.23	30.83	29.76	30.01
2003	51.90	67.31	64.34	65.33	64.08	64.30	64.20	50.82	50.16	50.31	38.39	36.50	36.95
2004	62.15	84.15	79.49	81.44	80.15	80.64	80.47	68.18	69.11	68.97	37.28	35.65	35.99
2005	89.36	117.02	114.67	115.73	114.30	115.22	114.86	101.36	102.49	102.29	53.37	49.87	50.55
2006	95.75	118.36	115.70	116.80	113.95	114.80	114.40	102.89	104.19	103.92	70.28	66.98	67.55
2007	107.68	126.74	124.70	125.57	123.20	123.81	123.55	110.72	112.06	111.79	88.29	86.29	86.60
2008	124.25	145.85	143.12	144.32	138.32	140.86	139.78	122.51	127.86	126.59	106.31	105.03	105.28
2009	115.67	180.87	174.58	177.43	141.65	145.48	143.84	111.39	116.55	115.33	77.16	74.02	74.58
Jan-10	126.85	214.55	201.65	207.51	154.40	161.92	158.90	128.11	132.75	131.67	75.09	69.05	70.08
Feb-10	123.37	208.36	201.89	204.71	155.92	159.00	157.86	121.61	125.42	124.57	73.49	66.74	67.88
Mar-10	125.30	206.37	205.17	205.71	162.13	166.09	164.50	125.28	126.49	126.21	72.53	66.16	67.25
Apr-10	126.89	195.18	203.50	199.50	171.32	167.95	169.24	124.94	126.04	125.71	76.26	70.55	71.52
May-10	128.10	197.76	202.39	200.33	174.21	172.72	173.28	121.66	129.19	127.32	76.21	69.49	70.61
Jun-10	142.20	229.06	220.75	224.49	193.52	189.16	190.90	136.18	145.29	143.20	82.51	75.78	76.92

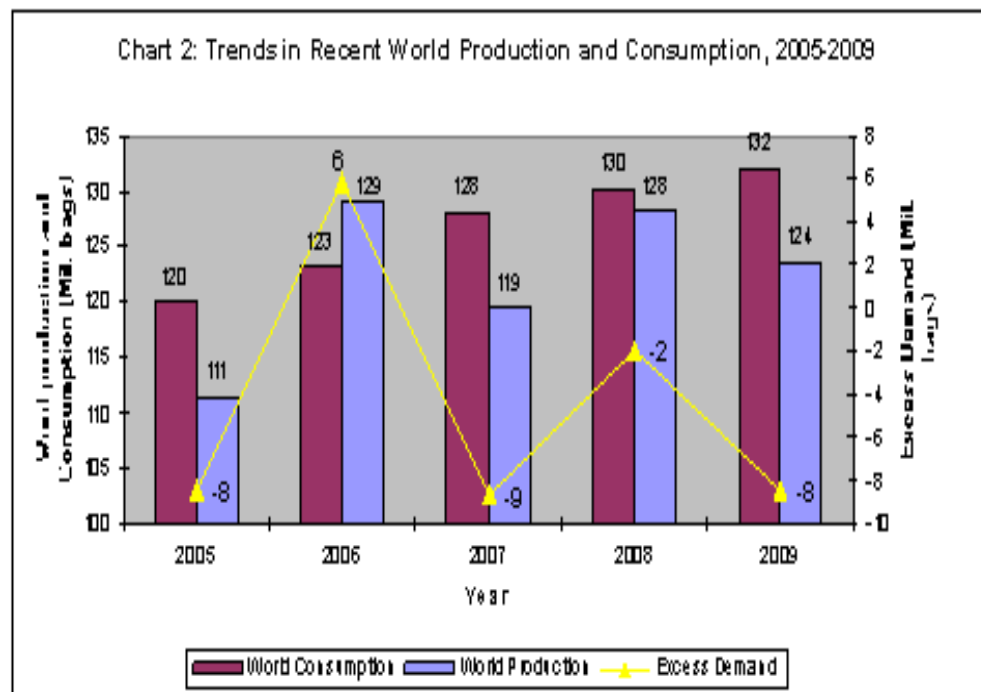
Source: International Coffee Organization (ICO)

“Growth in coffee consumption in the developed economies (major consumer markets) has been depressed due to the effects of the financial crisis.”

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The supply constraint is reflected in reduced global exports in 2009 that totaled 94.7 million bags compared to 97.7 million bags in 2008. In addition, the International Coffee Organization (ICO) data shows that coffee consumption has outstripped production in 4 out of 5 recent years (Chart 2). Despite a higher average supply growth of about 3% compared to an average

2.4% growth in coffee consumption over the last four years, lower levels of stocks in major consumer markets have added to the price pressures being experienced on the market. Growth in coffee consumption in the developed economies (major consumer markets) has been depressed due to the effects of the financial crisis.



Source: AfDB based on ICO data

3. Implications of the Recent Coffee Market Developments for African Producers

Recent developments in the global coffee market present both challenges and opportunities for African producers. This is particularly so in view of the experiences of the 2001/2 coffee crisis where coffee prices fell to their lowest level in 30 years. The depressed prices were mainly a result of the excess supply situation brought about by an increase in production, on the one hand, and lower growth in demand, on the other hand.

The challenge that African producers face, given the more recent developments in the market is how to respond appropriately to the market conditions without risking a repeat of the 2001/2 crisis.

Most African countries produce Robusta coffee, with a few having a mix of both Robusta and Arabica varieties. Countries producing Arabica coffee, especially the Colombian Mild will have a windfall in export earnings, which may lead to increased investments to boost output.

“...a broad-based rural development strategy that includes the development of micro-to-small scale agro-industrial operations has the greatest potential in safeguarding rural communities against the impact of price fluctuations and mono-crop dependency.”

“A part from the Dutch Disease effect of export windfalls, commodity price cycles have tended to be reflected in economic cycles as well.”

However, coffee plants take a minimum of 3 years from planting to the flowering stage. In addition, there are physical limitations that prevent some farmers from producing high valued varieties of coffee. But even more important, investments into coffee growing can only be made within the medium-to-long term range yet the dynamics of the market remain uncertain.

The implications are that a broad-based rural development strategy that includes the development of micro-to-small scale agro-industrial operations has the greatest potential in safeguarding rural communities against the impact of price fluctuations and mono-crop dependency. Such a strategy should also include broadening the crop mix. However, effective implementation of such strategies would need to be supported by significant changes to the tariff regimes in developing countries that discourage progress in this direction (see Section 4). Yet significant investments will be required to enhance the risk management skills and operational management skills of African farmers in general. In this context, governments may need to provide incentives and a supportive environment.

For governments, the current coffee market conditions could be a reminder of the negative effects of commodity price fluctuations. Apart from the Dutch Disease effect of export windfalls, commodity price cycles have tended to be reflected in economic cycles as well. Furthermore, such price movements have had differentiated impacts across the continent depending on the importance of the commodity to importing countries. The large shares of coffee exports in total export receipts in some African producers suggests that coffee price fluctuations also have important implications for balance of payment positions of those countries.

While data on balance of payments for 2010 is not yet available, a simple calculation of the correlation coefficients between GDP growth and changes in producer prices in some African countries provides some pointers. Correlation coefficients between these two variables are positive for all countries except for that of Ethiopia and Uganda. However, only Cote d'Ivoire's correlation coefficient is significant, with those of Burundi and Madagascar being weakly significant (Chart 3).

Chart 3: Correlation Coefficients between Changes in Producer Prices and GDP Growth

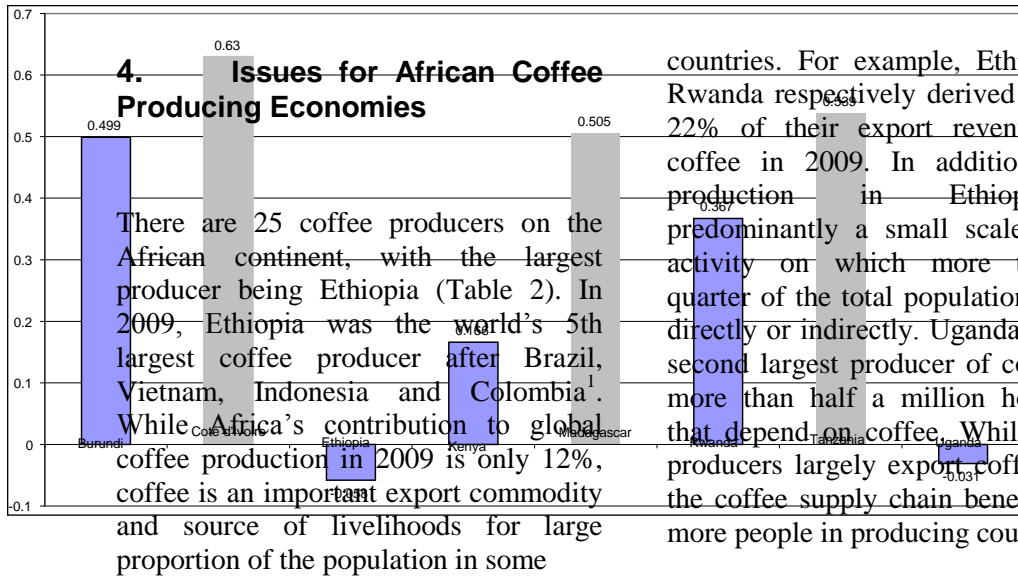


Table 2: Total Production of Exporting Countries (000 bags)

Source: AfDB based on ICO data

Note: Grey coloured bars are statistically significant

“In contrast, processed coffee still faces much higher tariffs of 12.1% in the EU, 10.1% in the USA and 18.8% in Japan. 2009 is only 12%, coffee is an important export commodity and source of livelihoods for large proportion of the population in some countries.”

“...coffee production in Ethiopia is predominantly a small scale farming activity on which more than one quarter of the total population depend² directly or indirectly.”

Year	Most African coffee exporters face no tariffs in the trade of green coffee and processed coffee. African roasted coffee exporters currently face tariffs of 2.6% under the Generalized System of Preferences (GSP) and zero tariffs under the Everything-but-Arms (EBA) arrangements for LDCs in the EU while the USA imposes no tariffs. However, Japan still imposes a 10% tariff under the GSP. The situation changes for processed coffee. In contrast, processed coffee still faces much higher tariffs of 12.1% in the EU; 10.1% in the USA, and 18.8% in Japan. This is a common challenge facing African commodity producers and has negative implications on investment flows into value adding activities and job creation.	2006	2007	2008	2009
World Production	10,454	11,050	12,487	11,876 ^(a)	12,749 ^(a)
Ethiopia (A)	4,568	4,003	4,961	4,901	4,350
Uganda (R/A)	2,593	2,159	2,000	2,000	2,000
Côte d'Ivoire (R)	2,301	1,962	2,309	2,309	2,309
Tanzania (A/R)	763	804	832	832	832
Cameroon (R/A)	727	849	727	727	727
Kenya (A)	736	660	736	736	736
Madagascar (R)	322	599	322	322	322
Congo, Dem. Rep. of (R/A)	300	356	300	300	300
Rwanda (A)	450	288	450	450	450
Guinea (R)	316	325	316	316	316
Burundi (A)	337	285	337	337	337
Togo (R)	160	140	160	160	160
Central African Republic (R)	45	53	45	45	45
Angola (R)	15	25	15	15	15
Nigeria (R)	43	40	43	43	43
Zambia (A)	1	1	1	1	1
Malawi (A)	21	24	21	21	21
Sierra Leone (R)	15	60	15	15	15
Zimbabwe (R)	10	10	10	10	10
Ghana (R)	10	20	10	10	10
Congo, Rep. of (R)	3	3	3	3	3
Gabon (R)	1	1	1	1	1
Others (b)	1,000	1,000	1,000	1,000	1,000

While noting the disparities in producer prices in the various African coffee producing countries, it is clear that on average the auction price of coffee beans per pound is 2009 least 33% higher than that paid to producers in Zambia (Charts 7a and 7b). Zambia paid the highest producer prices for mild Arabicas in the whole of Africa in 2009. However the producer price paid to Zambian farmers is equivalent to 25% of the wholesale price of coffee in the lowest priced consumer market in Europe (Finland).¹ The scenario for some countries like Uganda is even worse, where producers get only 40% of the market price of their produce. This outcome suggests three things. First, either transport and/or commodity broking costs are high in source markets. Second, marketing and distribution costs in consumer markets are high.¹ Third, wholesalers in consumer markets exercise some market power at the detriment of exporting countries.² The good news is that all three detrimental factors can be addressed³ through³ investments in infrastructure and distribution systems in source markets and improved competition in importing markets.

Source: AfDB based ICO data

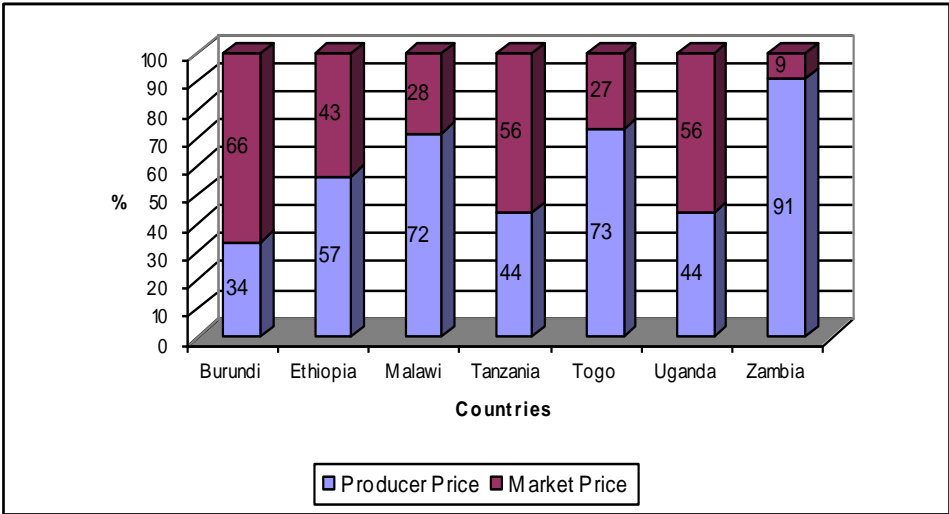
Notes: ^a Provisional

^b Includes Benin, Equatorial Guinea and Liberia

¹ The four countries contribute about 63% of world supply with Brazil alone accounting for almost 32% of total supply.

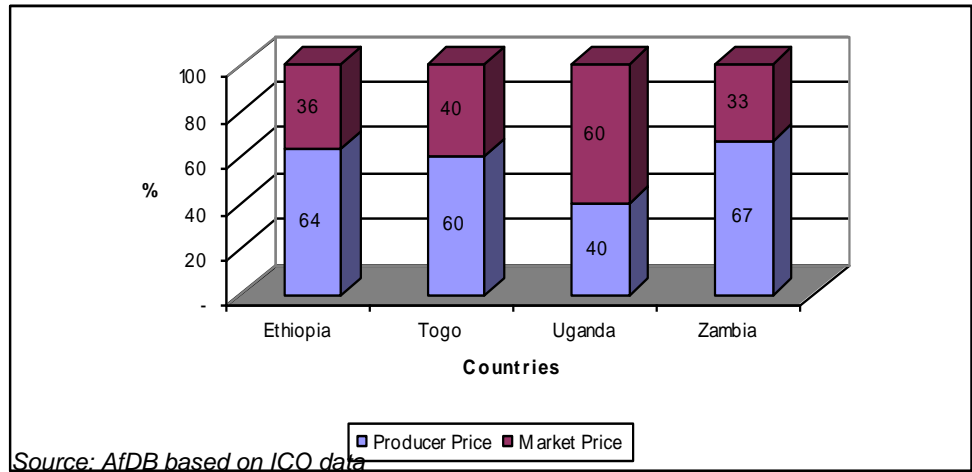
² <http://www1.american.edu/ted/ethcoff.htm>.

Chart 4a: Spread between Producer and Market Prices, 2008



Source: AfDB based on ICO data

Chart 4b: Spread between Producer and Market Prices, 2009



.5. Conclusions

Coffee producing countries in Africa, especially those producing Arabicas, stand to earn export revenue windfalls as a result of the recent increase in the commodity’s price on the international market. However, physical limitations in some coffee growing countries in Africa constrain their ability to broaden their mix among the various varieties, given the apparent price differentials, as a way of maximizing revenues. In addition, historical experiences have provided

invaluable lessons regarding the need for African commodity producers to use commodity export windfalls to diversify their economies, if sustainable development is to be assured. However, the conclusion of the multilateral trade negotiations, within the context of the Doha Development Agenda remains crucial in supporting the structural transformation of African commodity producers.

