

# Waking Up to World Coffee Crisis

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**Small farmers, especially in Latin America, are being driven into poverty by the plunging price they get for coffee beans.**

By DAVID ADAMS, Times Latin America Correspondent  
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TEZUMAPAN, Mexico -- Three years ago, Esteban Romero's small coffee plantation in the cloud-covered uplands of Veracruz state produced just enough money for his family to get by.

But world market prices have fallen so low lately that he wonders whether he can afford to harvest another crop.

"The truth is we'd be better off just leaving it completely," said Romero, 72, whose family has been growing coffee as long as he can remember. "Why bother? It's only losing money."

Coffee has long been one of Latin America's most lucrative and environmentally friendly cash crops. Coffee farming was an integral thread in the social fabric of rural life.

But in recent years the world's supply of coffee beans has far exceeded demand. Prices have plummeted, and coffee farming is in crisis.

The effects are being felt worldwide, from Asia to Africa. Nowhere is the impact more acute than in Latin America, which accounts for nearly 60 percent of world coffee production.

The coffee crisis "is an economic and social disaster," according to Martin Raine, head of the World Bank's Sustainable Development Office for Latin America. The World Bank calculates that 600,000 jobs have been lost in Central America alone because of coffee farms cutting their work forces or going out of business entirely.

Besides the livelihood of millions of peasant farmers and their families, other more strategic issues are at stake -- issues of great concern to the United States. They include the promotion of agricultural alternatives to the cultivation of drug crops, stemming the flow of illegal migration and the strengthening of democratic values.

The fallout from the world price drop has now reached "a politically and socially explosive situation," Nestor Osorio, the head of the International Coffee Organization, told the group's annual meeting in London in May. The crisis is "causing entire rural communities to disappear and forcing desperate peasants into everything from crime and illicit crops to illegal migration," he said.

## **A glut in the market**

Coffee analysts blame the dramatic fall on increases in production elsewhere, mainly of cheap robusta coffee beans in Vietnam and Brazil. Since 1997, Vietnam has doubled its coffee output, leaping to the No. 2 spot among the world's producers. (Brazil remains on top.)

The resulting glut has been a seeming godsend for coffee wholesalers, led by the four giants: Procter & Gamble, Kraft Foods, Sara Lee and Nestle, who together control about 40 percent of the world's coffee.

But further down the chain it has brought only ruin, especially in the impoverished highlands of Mexico, Central America and Colombia, recognized as the source of some of the world's best-tasting high-altitude arabica coffee.

In the past, coffee has been one of Mexico's chief foreign exports, selling at more than \$1.20 a pound. Today, the world market price has plunged to barely 45 cents -- the lowest in a century.

The effect on the country, the world's fifth-largest coffee producer, has been devastating.

Income from coffee exports fell from \$800-million to only \$250-million in the past three years. The area where coffee is grown has been reduced by nearly 700,000 acres in recent years.

To protect the smallest farmers, those with 12 acres or less, the Mexican Congress this year approved a \$150-million plan to compensate farmers forced to sell their beans below 70 cents a pound.

In northern Nicaragua, falling coffee prices have all but wiped out the economy. Since April, the country's 30,000 small coffee producers have laid off most of their 150,000 workers.

In Colombia, where coffee accounts for 35 percent of rural employment, officials estimate that some 200,000 jobs have been lost. The national Coffee Growers Federation was even forced to cancel the contract for its world-famous Juan Valdez ad campaign.

The prosperity of Colombia's coffee belt once earned it the nickname of "Little Switzerland," with well-paved highways, good public schools and none of the violence that wracks the rest of the nation.

But that's all changing.

"The coffee dream has died," said Aurelio Suarez, president of the Unidad Cafetera, which comprises 100,000 coffee growers throughout Colombia. Despite a small rise in production last year the value of Colombia's crop fell 27 percent.

If coffee prices are not turned around, Colombian officials warn, more and more farmers may turn to lucrative drug crops. Already in some areas of the coffee belt, coca and heroin poppies are beginning to appear.

"There are a lot of coffee growers switching to . . . or clearing a hectare or two of their farms for coca," said Jorge Robledo, a senator from Caldas province who has worked in the coffee business for more than a decade.

The economic desperation caused by the coffee crisis has already claimed lives. In May last year, 14 men from Veracruz, Mexico, died from heat exhaustion as they tried to get into the United States by walking through Arizona's Sonoran Desert.

Last November, at least 67 people died in a mudslide while searching for gold in an illegal open-pit mine. Most of the dead were coffee workers who had lost their jobs.

### **Profits for the roasters**

Shocking events like those deaths are causing the rest of the world to slowly wake up to the reality sweeping across the coffee-growing regions.

Critics complain that the coffee-drinking industrialized world has little understanding of where the \$4.75 it pays for a grande mocha latte actually winds up. They say that while thousands of hard-working peasant farmers can't earn enough to keep their crops going, the big coffee roasters are enjoying fat profits.

Oxfam America, a development agency that has coffee projects throughout Latin America, released a report titled *Bitter Coffee, How the Poor are Paying for the Slump in Coffee Prices*. It quoted a Nestle financial report that said, "trading profits increased . . . and margins improved thanks to favorable commodity prices."

Nestle and the other coffee giants acknowledge profits have been good, but they say the profits aren't out of line and they have passed on lower prices to retailers.

"We have reduced prices to retailers by 50 percent consistent with the reduction in the price of green coffee (beans), penny for penny," Tonia Hyatt, spokeswoman for Procter & Gamble, said.

Prices paid to farmers have plunged more than 80 percent since 1997, but average retail prices for ground roast coffee in U.S. cities have fallen only 27 to 37 percent, according to the U.S. Bureau of Labor Statistics.

Phone calls to several supermarket chains were not returned. "We don't discuss our profit margins," said Lee Brunson, a spokesman at the Lakeland headquarters of Publix.

The big four wholesalers buy their coffee in bulk, mostly from commodity brokers and, to a lesser extent, directly from farmers. They then roast, grind and blend it into popular supermarket brands such as Nescafe and Taster's Choice (Nestle), Folgers (Procter & Gamble) and Maxwell House (Kraft).

Critics say the major wholesalers have eagerly bought up cheap supplies of Brazilian and Vietnamese robusta, which they blend with smaller amounts of higher priced arabica.

Under pressure from human rights advocates and a growing "fair trade" movement in Europe and the United States, some industry leaders have begun to sound a cautionary tone about the unequal distribution of coffee earnings.

The major roasters are dedicating increased funds to help farmers and their local communities directly. Several of the companies are collaborating with development organizations. Procter & Gamble recently signed a 10-year \$1.5-million alliance with TechnoServe, a non-profit organization that helps small farmers and other entrepreneurs in Africa and Latin America.

Roasters also insist the huge drop in price does not serve them well, either.

"It's not in the interest of the industrialists because it means farmers cannot assure the quality of their crops," said Marcel Rubin, a spokesman for Nestle's headquarters in Switzerland. "It's in our interest that the growers get the remuneration that permits them to grow their coffee in good conditions."

Advocates of reform recognize that most of the major roasters have taken steps to address the plight of farmers. Top marks go to the Starbucks coffeehouse chain, which pays a premium for quality coffee.

Even so, critics remain skeptical about the true level of industry commitment.

"It starts with their propaganda and ends with their actions," Liam Brody, coffee coordinator for Oxfam America, said. "Their propaganda goes far beyond their actions."

Groups like Oxfam are pressing for governments to step in and enforce stricter international coffee standards, including protection for quality coffee imports. They want to see more government aid devoted to helping farmers diversify into alternative crops.

The roasters strongly oppose government intervention. Instead they put their faith in increasing worldwide coffee consumption through strong marketing campaigns.

"That's the biggest contribution we can make," Procter & Gamble's Hyatt said.

Such statements surprise coffee officials in Veracruz. Two years ago, when the local state government approached Nestle for financial help in launching its own \$2-million marketing drive -- with the slogan "Life tastes better drinking coffee" -- it received a check for \$5,000.

"That's the kind of cooperation we get. It was embarrassing!" said Marco Miguel Munoz, the state trade commissioner. "I think they are too proud of how much profit they are making. They should take more pride in where their coffee comes from."

### **Losing their men**

With less and less of that coffee coming from Mexico, the landscape is changing, and many fear the effects -- both environmentally and socially.

Upland arabica coffee grows in the shade of hillside forests. Now on the slopes of the Orizaba volcano in Veracruz, rows of corn and sugar cane are replacing coffee shrubs and their protective forests. In parts of southern Mexico, young men are leaving the fields in droves to search for work in the cities, or paying polleros, "people smugglers," as much as \$2,200 to cross the U.S. border.

"We estimate that 30 to 35 percent of coffee workers have emigrated," said Roberto Munoz, at the Veracruz Coffee Council, a government-backed industry association.

In Veracruz's once profitable coffee regions of Coatepec and Huatusco, smuggler trucks loaded with 40 to 50 passengers leave for the border once a month.

Still, Esteban Romero leaves home at the crack of dawn to tend his fields, but these days he goes alone. His two sons emigrated to the United States in 1999 where they found work in South Carolina. The Romero family survives on the money the sons, Victor, 42, and Miguel, 38, send home. Tears well in their wives' eyes when talk turns to their absent husbands and the children they left behind.

Their mother, Flora Fernandez, says, "There's a lot of suffering, and a lot of children missing their dads."

Where the Romeros live, on Zamora Street, an unpaved row of ramshackle homes, residents said at least 35 young men who have left in the past three years.

"Now it's their wives who are leaving, and even the kids, because there's no work here and the women are sick of waiting," said Fernandez, 60.

"The coffee situation is utterly unsustainable for the growers," said Cristina Nunez, an anthropologist at Veracruz University, who has studied local migration.

"The only thing that is keeping the entire economy of the region afloat are the remittances (mailed cash) the men send back home every month," she added.

The hope for many is that the better-paying niche market for organic and specialty coffees in Europe and the United States will want the high-quality arabica coffee produced in Latin America. But to meet the tough standards for organic coffee, farmers must first purge their land of chemical fertilizers, which can take up to five years. That requires a huge investment.

"It's very hard for us to compete with the big companies," said Javier Murrieta, who owns 247 acres of coffee in Veracruz. "The industry is too greedy. They need to put their hands on their heart and see what they are doing."