

## *Grounds for Complaint?* *Understanding the “Coffee Crisis”*

by Brink Lindsey

### **Executive Summary**

While affluent consumers in rich countries pay several dollars for a cup of latte at the local Starbucks, millions of small-scale coffee farmers are struggling as coffee bean prices have plummeted to historic lows. The juxtaposition of the designer coffee boom and rock-bottom raw material prices strikes market critics as compelling evidence of unfairness and exploitation. They blame multinational coffee roasters and retailers for profiting at poor farmers' expense, and they propose a number of schemes—including “fair trade” coffee, the use of new quality standards to restrict imports, and the return to political management of coffee exports—to help coffee farmers by propping up coffee bean prices.

The coffee market is clearly far from the textbook model of frictionless efficiency. Its adjustment of supply and demand is subject to long lags and over-

shooting. Nevertheless, the story of the current coffee glut is at bottom a story of falling costs and productivity improvements on both the supply and the demand sides. In particular, prices have fallen so low primarily because of dramatically expanded production by low-cost suppliers in Brazil and Vietnam. And those low prices are a signal to high-cost producers—for example, in Central America—to supply a higher-value product or exit the market.

However well-intentioned, interventionist schemes to lift prices above market levels ignore those market realities. Accordingly, they are doomed to end in failure—or to offer cures that are worse than the disease. There are constructive measures that can help to ease the plight of struggling coffee farmers, but they consist of efforts to improve the market's performance—not block it or demonize it.

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## **Introduction**

Critics of free markets cite the coffee industry as a prime example of globalization's ills. Unregulated commerce, they argue, too often produces luxury for the few at the expense of hardship for the many—and the international coffee market is allegedly a case in point. While affluent consumers in rich countries pay several dollars for a cup of latte at the local Starbucks, millions of small-scale coffee farmers throughout the developing world are struggling just to survive as prices of raw coffee beans (known as “green coffee”) have plummeted to historic lows.

The juxtaposition of the designer coffee boom and rock-bottom raw material prices strikes market critics as compelling evidence of unfairness and exploitation. “The coffee market is failing,” states a lengthy report on the “coffee crisis” by the anti-poverty group Oxfam. “It is failing producers on small family farms for whom coffee used to make money. It is failing local exporters and entrepreneurs who are going to the wall in the face of fierce international competition.” Meanwhile, according to Oxfam, the large multinational coffee-processing companies or “roasters”—Kraft, Nestlé, Procter & Gamble, and Sara Lee—“are laughing all the way to the bank.”<sup>1</sup>

Starbucks, the world's largest specialty coffee retailing chain, has also been identified as a guilty party. “Starbucks Profits As Farmers Starve,” reads a flyer by the activist group Global Exchange.<sup>2</sup> The vilification of Starbucks has even carried over into vandalism against some of the chain's many outlets—most famously in Seattle during the anti-WTO demonstrations in December 1999.<sup>3</sup>

A number of interventionist initiatives have been launched or proposed in response to the coffee market's perceived breakdown. The best known is the “fair trade” coffee campaign, in which roasters and retailers are pressured by activist groups to sell coffee grown under specified conditions and purchased at above-market prices. In addition, the Specialty Coffee Association of America and producer interests from Colombia, Mexico, and Central America are pushing the

introduction of legislation in the U.S. Congress that would impose new quality standards. Under the draft legislation, imported coffee failing to meet those standards would have to be labeled “coffee by-products.” Meanwhile, Oxfam has gone further and outlined a wide-ranging “Coffee Rescue Plan” that would include destroying excess stocks as well as fair-trade and quality-standard initiatives. Over the longer term, Oxfam advocates a return to the political management of the coffee market by producer and consumer country governments.

Do the problems now afflicting the coffee industry really amount to a failure of the free market? Without a doubt, coffee producers are suffering through a prolonged and severe drop in prices, the human costs of which are real, serious, and heartrending. But any attempt to blame this state of affairs on nefarious dealings by multinational corporations is nonsense. The fact is that the current glut is ultimately the result of the coffee market's doing what it is supposed to do: improve productivity and reduce costs. Prices in recent years have been so low primarily because of dramatically expanded production by low-cost suppliers in Brazil and Vietnam. And those low prices are a signal to high-cost producers—for example, in Central America—to supply a higher-value product or exit the market.

However well-intentioned, interventionist schemes to prop up prices above market levels ignore those market realities. Accordingly, they are doomed to end in failure—or offer cures that are worse than the disease. There are constructive measures that can help to ease the plight of struggling coffee farmers, but they consist of efforts to improve the market's performance—not block it or demonize it.

## **Progress and Pain**

Coffee is a major commodity in international commerce. It is produced in more than 50 countries, and total exports in 2002 amounted to nearly 6 million tons. Some 25 million farmers, mostly smallholders with farms of less than 25 acres, depend on coffee for their livelihood. In many poor

countries, coffee is a crucial source of export revenue, accounting, for example, for 24 percent of total exports from Honduras in 2000, 43 percent from Uganda, and 54 percent from Ethiopia.<sup>4</sup>

Coffee comes in two principal varieties: arabica and robusta. Arabica grows at higher altitudes and features a milder flavor; robusta is a hardier plant but produces a stronger taste. Arabicas generally command a higher price than robustas, but there are enormous quality and price differences within each variety. While some “single-source” specialty coffees are sold as premium niche products, the biggest-selling coffee brands are blends of both varieties from numerous sources.

For most years between 1962 to 1989, coffee prices were supported by export quotas administered under the International Coffee Agreement. Participants in the agreement included not only major producing countries but also the leading consuming nations (the latter supported the agreement as a Cold War measure to promote growth and stability in Third World countries). The export quota system broke down in 1989 and was never successfully reestablished.

**Booms and Busts**

Unsurprisingly, the collapse of export restraints led to lower world coffee prices

(Figure 1). Prices jumped sharply in the mid-1990s because of frost and drought in Brazil but then resumed their downward course, sinking to unprecedented depths in the past few years. Throughout this recent slump, supply has consistently outstripped demand (Table 1). Prices did see a modest recovery during 2002, but they continue to hover near historic lows—in the neighborhood of 50 cents per pound.

By its nature, the coffee market is prone to recurrent shortages and gluts. It takes several years from the time a coffee tree is planted until its beans can be harvested for the first time; accordingly, the adjustment of supply to changes in prices is subject to long lags. And because coffee is produced by millions of small family farmers, decisions about planting new trees are seldom based on sophisticated forecasts of long-term market conditions. As a result, a temporary price spike (caused, for example, by a poor harvest) can lead to a glut several years down the line as the new supply becomes available at the same time that existing trees are yielding a bumper crop.

Meanwhile, supply is stubbornly slow to adjust downward during periods of overcapacity. Because fixed costs (i.e., the costs of growing and maintaining trees) are a high share of

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**Figure 1**  
**Average World Coffee Prices**



Source: International Coffee Organization.

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**Table 1**

**World Coffee Production and Consumption (million bags green coffee)**

	1998-99	1999-00	2000-01	2001-02	2002-03*
World coffee production	108.5	113.0	115.3	111.2	122.0
World coffee consumption	102.0	103.0	104.5	105.6	107.0
Difference	6.5	10.0	10.8	5.6	15

Source: F.O. Licht, International Coffee Report, July 23, 2002.

Note: one bag = 60 kilograms, or 132 pounds.

\*Outlook.

the total costs of coffee production, it is economically rational for farmers to continue to harvest coffee beans as long as prices cover variable costs, even if prices are well below average total costs. Only the most marginal producers are driven from the market, while excess production piles up in inventory stocks that continue to depress prices even after new production has finally shrunk.

**New Lost-Cost Supplies**

Overshoot from the high prices of the mid-1990s doubtless played a role in precipitating the present slump. But beyond cyclical fluctuations, the coffee market has seen important structural changes in recent years. In particular, low-cost suppliers in Brazil and Vietnam have been expanding production by leaps and bounds. This surge in low-cost capacity has put long-term downward pressure on prices and subjected many traditional suppliers to a severe competitive squeeze.

Vietnam's rise has been the most spectacular. In 1990 the country produced only 1.4 million 60-kilogram bags of green coffee; by 2000, production had skyrocketed to 14.8 million bags. Since then production has tailed off considerably, falling to 12.3 million bags in 2001 and only 8.7 million bags in 2002. Even with the recent production cutbacks, Vietnam trails only Brazil and Colombia as the third largest coffee producer.<sup>5</sup> And because of cheap labor, favorable growing conditions, and concentration on the easier-to-grow robusta variety,

Vietnamese production costs lie well below global norms.

Brazil, long the world's largest producer, has also undergone a massive growth spurt recently. From 1990 to 1994, Brazil's annual production ranged from 25 to 30 million bags; after off years in the mid-1990s, production jumped to the 30-35 million bag range during 1998-2001. In 2002, production zoomed to nearly 50 million bags.<sup>6</sup> In other words, the *increase* in Brazil's output last year approximated the total production of Vietnam in its highest-output year.

Brazil isn't just producing much more coffee than ever before; it's producing much cheaper coffee as well. First of all, the depreciation of the Brazilian real from 1.20 to the dollar in January 1999 to 3.60 as of January 2003 has caused Brazilian costs in dollar-denominated terms to fall markedly. Furthermore, the Brazilian industry features large plantations that have invested heavily in new technology and more intensive farming methods. In addition, production has been migrating to the north where it is less susceptible to ruinous frosts. The Oxfam report quotes a coffee trader on Brazil's commanding advantage in productivity: "To give you an idea of the difference, in some areas of Guatemala, it could take over 1,000 people working one day each to fill the equivalent of one container of 275 bags. . . . In the Brazilian cerrado, you need five people and a mechanical harvester for two or three days to fill a container. . . . How can Central American family farms compete against that?"<sup>7</sup>

Competitive pressure from low-cost suppliers in Brazil and Vietnam has indeed driven many less efficient farmers out of coffee production. The human costs of this exit from the market have been considerable: in Central America alone, an estimated 200,000 permanent workers and 400,000 seasonal workers have lost their jobs over the past few years.<sup>8</sup> On the other hand, the changes in the marketplace have also created significant new employment. In Vietnam, coffee-related jobs have soared from 300,000 a decade ago to between 4 and 5 million today.<sup>9</sup> The job losses and job gains go hand in hand, and it is therefore impossible to condemn the former as unfair without implicitly condemning the latter as well. Are Vietnamese farmers really to be blamed for pursuing economic opportunities and capitalizing on their competitive advantages?

Meanwhile, developments on the demand side of the coffee market have further contributed to downward pressure on prices. The large roasters have developed new processes to remove the bitter taste produced by cheaper coffee beans. These technological advances allow robustas (such as those produced by Vietnam) and less expensive “natural” arabicas (Brazil’s major product) to be substituted for costlier “mild” arabicas while still maintaining quality. World Bank economist Panos Varangis estimates that the percentage of mild arabica in the roasters’ leading coffee blends dropped from 50 percent in 1989 to 35 percent in 2001.<sup>10</sup>

The coffee market is clearly far from the textbook model of frictionless efficiency. Its adjustment of supply and demand is subject to long lags and overshooting. Nevertheless, the story of the current coffee glut is at bottom a story of falling costs and productivity improvements on both the supply and the demand sides. In other words, the coffee market is delivering what markets are supposed to deliver—economic progress. Admittedly, it is never pleasant for market incumbents to be displaced by more efficient new entrants, and such displacement can be especially painful when those incumbents live in poor countries that offer few alternative livelihoods. But creative destruction lies at the very heart of the market process; it is not a market failure.

### **Demonizing Processors**

It is simply foolish to blame roasters and retailers for the suffering of distressed coffee farmers. Most of the factors that have contributed to the current coffee slump are entirely outside their control. They had nothing to do with millions of coffee farmers’ decisions to plant new trees in response to the high prices of the mid-1990s. They had nothing to do with the depreciation of the real or the productivity improvements of the Brazilian industry. It’s not their fault that growing costs in Vietnam are so low.

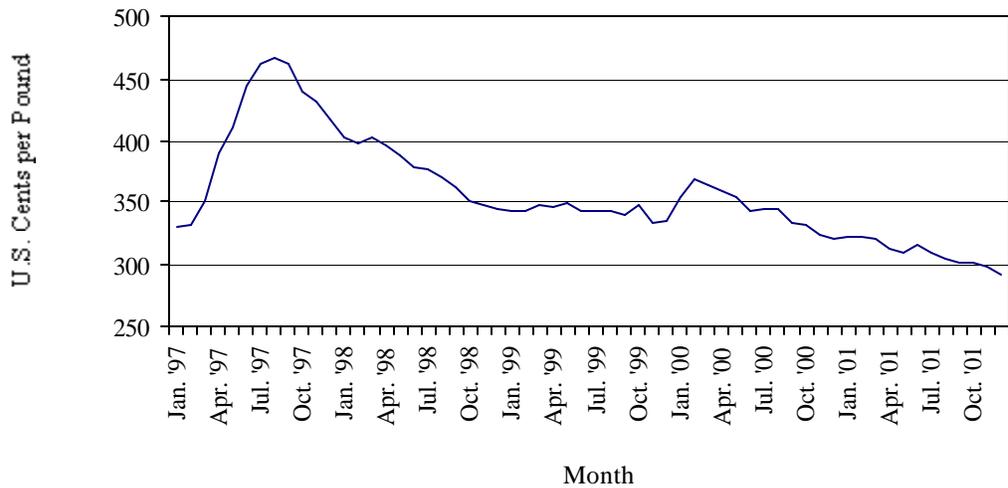
It is true that roasters have developed new techniques to make better use of cheaper coffee beans, and thereby have put some downward pressure on prices. But every company in every industry strives to reduce costs wherever possible—there is nothing unfair or exploitative or wrong about doing so. On the contrary, it is the free market system’s relentless push for improvements in productivity that is the foundation for all our prosperity.

Meanwhile, roasters and retailers also work to stimulate demand—which, to the extent they are successful, acts to boost coffee prices. In particular, their development of the specialty coffee market in recent years has greatly expanded the market for high-quality coffee beans for which growers can and do charge premium prices. Specialty coffee sales in the United States topped \$6 billion in 2001—up from \$1 billion in 1990.<sup>11</sup> And these gourmet coffees fetch high prices—roughly a dollar per pound above the normal mild arabica price in the case of Kenya AA and Guatemala Antigua, all the way up to \$16 per pound or more for Jamaica Blue Mountain.

The charge that roasters and retailers are profiting at the expense of coffee farmers ignores basic facts. First, U.S. retail prices have been falling in line with green coffee prices since 1997 (Figure 2). In this regard, Procter & Gamble’s *2002 Annual Report* notes that, with respect to its food and beverage segment, “[v]olume declines and commodity-related pricing actions in coffee drove an 8% decrease in net sales.”<sup>12</sup> As to the striking contrast between green coffee prices and the prices at

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**Figure 2**  
**U.S. Retail Prices**



Source: International Coffee Organization.

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the local Starbucks, the fact is that coffee costs are a relatively minor element in the price of a cup of coffee. Coffee accounts for only about 5 to 7 percent of that price—much less than labor (19–20 percent) and rent (16–18 percent) and on a par with the cup and lid (7–8 percent), other packaging and sugar (5–7 percent), and dairy costs (6–8 percent).<sup>13</sup> Falling coffee bean prices thus have little influence on the price at the retail coffee bar.

### **Dead-End Proposals**

Low coffee prices do raise serious humanitarian concerns. Millions of people with little or nothing to fall back on have experienced devastating drops in income. Sympathy for their suffering and a heartfelt desire to relieve it are commendable, but good intentions aren't enough. Approaches that fly in the face of market realities will not accomplish much of anything—and could well end up making matters worse.

#### **“Fair Trade” Symbolism**

The “fair trade” campaign is one such well-meaning dead end. Under this approach, various nongovernmental organizations now certify coffee

with the “fair trade” label if it is grown by cooperatives that meet specified social criteria and sold at a minimum price well above current market levels. For example, the base price for mild arabica coffee is set at \$1.26 per pound, roughly double the level of recent market prices.

The fair trade movement has gained real prominence in the past few years as activists around the world have waged aggressive campaigns to pressure roasters and retailers to produce and sell fair trade brands. The fair trade cause scored a major symbolic victory in October 2000 when Starbucks started selling fair trade coffee beans. The chain later agreed to increase its purchases and offer fair trade brews in its stores once a month.

Symbolic victories, however, are the only kind that this movement is likely to achieve. There is a limited market of politically motivated purchasers who will purchase fair trade coffee—as well as organic and shade-grown coffee<sup>14</sup>—because they approve of how those products are made. But the overwhelming majority of consumers buy coffee on the basis of how it tastes—and how much it costs. And the fact is that the quality of fair trade coffee does not justify its higher price. If a consumer is willing to pay a premium price for coffee, he now has a

dizzying array of choices that offer taste superior to that of politically correct brands. Accordingly, fair trade coffee now claims only about 1 percent of the U.S. retail market; in Europe, where the movement has been active longer, market share is only modestly higher.<sup>15</sup>

Activist campaigns to browbeat roasters and retailers into carrying products that consumers don't want are doomed to end in frustration. Far better conceived are the efforts of groups like Technoserve that work with farmers and help them move into high-quality, specialty coffee production.<sup>16</sup> The fast-growing specialty coffee industry is developing and serving vibrant consumer demand—and in the process creating greater economic opportunities for coffee farmers.

Although it does help a few lucky farmers, the fair trade campaign could end up inadvertently harming many others. Stigmatizing the vast majority of coffee people buy as unfairly and exploitatively produced acts as negative advertising that, to the extent it is successful, taints consumer attitudes about coffee generally. Per capita consumption of coffee in the United States is already in long-term decline: from 36 gallons a year in 1970 to 17 gallons in 2000.<sup>17</sup> Guilt induced by coffee-bashing activists could accelerate that downward trend—reducing demand for coffee and further immiserating the very farmers that the activists are seeking to help.

### **Quality Restrictions Not Needed**

Proposals to impose minimum quality standards on the U.S. coffee market are likewise misguided. Although billed as a response to the coffee crisis, purity legislation would simply advantage some producer and seller interests at the expense of others.

The Specialty Coffee Association of America, along with the Colombian Coffee Federation, the Mexican Coffee Council, and a group of Central American producers are pushing for a "Coffee Purity Act" that would impose quality standards far stricter than current Food and Drug Administration rules. Specifically, coffee would be required to have a moisture content of between 8 and 13 percent, and defects per 300-gram sample could not exceed 86 for

arabica and 150 for robusta. Products made from coffee not meeting these quality standards would have to be labeled "coffee by-products." No such legislation has yet been introduced, but in July 2002 the Subcommittee on the Western Hemisphere of the House Committee on International Relations did hold hearings on the coffee crisis in which calls for new quality standards featured prominently.<sup>18</sup>

Restrictive new standards are wholly unnecessary for consumer protection. Nobody consumes green coffee: it is a raw material. Accordingly, the fact that imported green coffee may contain noncoffee materials (twigs, rocks, dust, etc.) or defective (broken, black, unripe, fermented, or insect-damaged) beans is of no concern to consumers—provided that processing firms are able to remove extraneous materials and prevent defects from compromising the taste and aroma of the final retail product. And that's precisely what roasters do. Like all processors of agricultural products, they remove extraneous materials; like all consumer-product companies that live and die on the strength of their brands, they work very hard to maintain consistent quality in the final product. The evidence that they are succeeding lies in the verdict of consumers: namely, that blended coffees, which are the ones that make use of cheaper and lower-quality raw material, continue to dominate the retail market. If tastes shift away from blends, there is no need for legislation; roasters and retailers will simply change their product offerings to give people what they want.

The real effect of the proposed legislation would be to protect, not consumers, but some producers at the expense of others. The targets are cheap robustas from Asia and Africa whose access to the U.S. market would be seriously undermined. Import barriers would give the Latin American producers that specialize in mild arabicas a competitive advantage, since that variety of coffee has lower defect levels; also, by raising costs for the producers of mass-market blends, new quality standards would help specialty coffee producers. It's no surprise, then, that the specialty coffee industry and some Latin American producers of mild arabicas support the legislation.

**Purity legislation would simply advantage some producer and seller interests at the expense of others.**

**Economic analysis suggests that coffee farmers generally received below-market prices while quotas were in effect.**

But special-interest legislation would do nothing to alleviate the larger global coffee slump. Some Latin American farmers would benefit, but Asian and African farmers would be made even worse off than they are at present. High-cost suppliers would be artificially shielded from market signals, thereby hindering the necessary adjustment of supply to demand. Furthermore, the increase in U.S. prices that would result from import restrictions would lead in turn to reduced demand in the world's largest coffee market—further exacerbating the supply-demand mismatch that is at the root of today's depressed price levels.

### **Back to the Managed Market?**

Oxfam traces the roots of the current troubles in the coffee market to the demise of the International Coffee Agreement's system of export quotas back in 1989. "From the perspective of producer countries," argues the Oxfam report, "the Agreement brought a golden era of good and stable prices, compared with the present development disaster."<sup>19</sup>

Oxfam proposes the adoption of a short-term "Coffee Rescue Plan" that would include, among other things, commitments by roasters to purchase more fair trade coffee, quality-based trade restrictions, and the destruction of 5 million bags of inventory stocks as a temporary stimulus to prices. Over the longer term, though, the organization advocates a "Commodity Management Initiative" in which "producer and consumer governments [establish] mechanisms to correct the imbalance in supply and demand to ensure reasonable prices to producers."<sup>20</sup> Although there is no indication of what such mechanisms would look like, it appears that the organization is calling for some kind of resumption of ongoing trade restrictions in order to support world coffee prices.

Oxfam's nostalgia for the days of export quotas is misplaced. Yes, quotas did succeed in elevating world coffee prices roughly 20 percent above free-trade levels.<sup>21</sup> But such inflated prices did not necessarily translate into higher incomes for coffee farmers.

The primary beneficiaries of quotas were government treasuries, bureaucrats, and exporters—not farmers. Auctions of quota rights, under-the-

table selling of quota rights by corrupt government officials, or heavy taxes on coffee siphoned off much of the artificial scarcity value created by trade restrictions. Pervasive government controls were the norm in coffee-producing countries: in 1985, only 15 of the world's 51 major coffee-producing nations had private marketing systems.<sup>22</sup> Elsewhere, government marketing boards or stabilization funds or parastatal monopolies controlled production, pricing, and marketing to a greater or lesser degree. As a general rule, those institutions and the officials who ran them were much more concerned with maximizing their own welfare than that of farmers. Economic analysis suggests that coffee farmers generally received below-market prices while quotas were in effect.<sup>23</sup>

Indeed, one of the great benefits of the collapse of the quota regime was the subsequent dismantling of government controls more generally. Trading monopolies were eliminated, prices were freed, and restrictions on production and marketing were lifted. As a result, the share of export value received by farmers often rose sharply. In India, for example, that share is estimated to have jumped from around 65 percent before liberalization to 80 percent afterward. In Togo, the farmers' share of export value fell below 30 percent in the early 1980s; reforms over the next decade nearly doubled that share, and then the scrapping of price and marketing controls raised it to more than 80 percent.<sup>24</sup>

Even if it were possible to establish a new quota regime with nearly universal coverage,<sup>25</sup> there is little reason to believe that coffee farmers would gain as a result. The artificially inflated export prices would only exacerbate the problem of excess supply unless production were somehow curbed. Although it might be theoretically possible to handle this problem so that farmers still reaped most of the benefits from high prices (for example, through restrictions on production or subsidies for nonproduction), history shows that the far likelier outcome is that supply would be kept in line through some mechanism—price controls, taxes, quota auctions, or bribe taking in the allocation of quota rights—that depressed the prices paid to farmers.

The historical record shouldn't be surprising. Quotas created artificial scarcity, which in turn

precipitated a political scramble for the spoils from that scarcity in each coffee-producing country. Why would anyone expect that poor, unorganized farmers would have prevailed in such political contests? Why would things be any different if quotas were reinstated?

## Conclusion

The low coffee prices of recent years are a clear market signal that coffee supply is excessive relative to demand. A reduction in supply is therefore the most obvious way out of the slump.

Cutting supply is painful. It means lost jobs, falling incomes, and real hardship for desperately poor people in desperately poor countries. Under the present circumstances, unfortunately, some measure of pain is unavoidable: traditional suppliers who are unable to adapt will have to exit the market to make room for more efficient, low-cost competitors.

That pain would be considerably less if better policies were pursued here and abroad. Coffee farmers would be better able to diversify into other crops if the United States and other rich countries didn't maintain such high trade barriers and lavish subsidies on a wide variety of agricultural products. And of course coffee farmers would have much better alternatives if only their own governments would provide the institutions and policies on which widespread prosperity depends. But the harm caused by these aggravating factors goes far beyond the coffee sector.

The pain of cutting back supply is not the only option, however. One alternative approach is to try to boost demand. In particular, the coffee industries in producing countries can do more to promote their products at home. For example, a sustained marketing effort in Brazil during the 1990s succeeded in almost doubling consumption. Other coffee-producing countries should be able to follow Brazil's example: per capita consumption in Colombia is less than half that in Brazil, while Mexicans drink one-fifth as much coffee as Brazilians.<sup>26</sup> Looking more broadly,

many markets in Asia and Eastern Europe offer significant untapped potential.

In addition, coffee producers can continue to move into higher-value products. The specialty coffee market has boomed over the past decade and will likely continue to do so. The enterprising producers that find ways to serve this growing demand will be far better off than those who remain behind in the commodity segment of the market. Opportunities also exist in instant coffee, iced coffee, and other branded products.

Meanwhile, coffee industries can do more to reduce and manage market volatility. National coffee associations in conjunction with the International Coffee Organization can do a better job of collecting and disseminating statistics on production and consumption so that growers are better informed about market conditions. Better information would help to reduce the amplitude of the glut-and-shortage cycle. Also, there is broad scope for wider use of risk management techniques that can insulate growers from the harmful effects of wide price swings.<sup>27</sup>

The coffee slump need not be faced with passive resignation. There are a variety of strategies for responding constructively to the current difficulties. But all of those strategies have this in common: they work with market forces rather than rail against them.

Critics of free markets maintain that the coffee crisis highlights the failures of globalization. In fact, however, it is their response to the coffee crisis that showcases the failures of the anti-globalization movement. That movement proclaims its sympathy for the world's poor, but its economic illiteracy leads again and again to the advocacy of measures that would actually exacerbate global poverty. With specific regard to coffee, those who single out particular companies as scapegoats and advocate various half-baked schemes to prop up prices may have the best of intentions, but they are not really helping. At best they are diverting time and energy into dead ends; at worst they could end up making the situation even worse. It may *feel* good to ignore market realities, but it won't *do* any good.

**Those who single out particular companies as scapegoats and advocate various half-baked schemes to prop up prices may have the best of intentions, but they are not really helping.**

## Notes

1. Oxfam, "Mugged: Poverty in Your Coffee Cup," 2002, p. 2, [www.maketradefair.com/stylesheet.asp?file=16092002163229](http://www.maketradefair.com/stylesheet.asp?file=16092002163229).
2. This poster may be viewed online at [www.globalexchange.org/economy/coffee/StarbucksFlyer.pdf](http://www.globalexchange.org/economy/coffee/StarbucksFlyer.pdf).
3. See, for example, Jake Batsell, "Starbucks Has Found Itself a Global Symbol—and Target," *Seattle Times*, November 16, 2001.
4. For information on coffee exports as a percentage of total country export revenues, see Oxfam, p. 8.
5. Production statistics are compiled by the International Coffee Organization and are available at [www.ico.org](http://www.ico.org).
6. *Ibid.*
7. Oxfam, p. 18.
8. *Ibid.*, p. 12.
9. European Coffee Federation, "ECF Comments on Oxfam 'Make Trade Fair' Campaign," pamphlet, p. 2.
10. See Miriam Wasserman, "Trouble in Coffee Lands," *Federal Reserve Bank of Boston Regional Review* 12, no. 2 (2d Quarter 2002): 4–13, [www.bos.frb.org/economic/nerr/rr2002/q2/coffee.htm](http://www.bos.frb.org/economic/nerr/rr2002/q2/coffee.htm).
11. "Specialty Coffee," Hillside Agricultural Program, Product Bulletin no. 3, 2001–2002, [www.haitihap.org/pdf/coffee.pdf](http://www.haitihap.org/pdf/coffee.pdf).
12. Procter & Gamble, *2002 Annual Report*, p. 22.
13. Coffee Association of Canada, "The Current Coffee Crisis—Causes, Analysis and Solutions," pamphlet, September 2002, p. 12.
14. Organic coffee is grown without chemical fertilizers, and shade-grown coffee is grown under a canopy of trees. The latter is also known as "bird-friendly" coffee because the trees offer a habitat for migratory birds in coffee-growing regions. These designations focus on environmental rather than social criteria, but there are ongoing efforts among activist groups to merge all these criteria, sometimes under the general heading of "sustainable" coffee.
15. See "Toward More Sustainable Coffee," World Bank Agriculture Technology Notes no. 30, June 2002, [http://lnweb18.worldbank.org/ESSD/essdext.nsf/11ByDocName/TowardMoreSustainableCoffee/\\$FILE/AgTech30.pdf](http://lnweb18.worldbank.org/ESSD/essdext.nsf/11ByDocName/TowardMoreSustainableCoffee/$FILE/AgTech30.pdf); see also Kristina Sorby, "Coffee Market Trends," background paper to "Toward More Sustainable Coffee," [http://lnweb18.worldbank.org/ESSD/essdext.nsf/26DocByUnid/4B94E908C1B6768085256BF8005EC054/\\$FILE/ATN30BackgroundPaper1.pdf](http://lnweb18.worldbank.org/ESSD/essdext.nsf/26DocByUnid/4B94E908C1B6768085256BF8005EC054/$FILE/ATN30BackgroundPaper1.pdf).
16. See [www.technoserve.org](http://www.technoserve.org).
17. Oxfam, p. 19.
18. The transcript of the hearing is available at [http://wwwa.house.gov/international\\_relations/107/80964.pdf](http://wwwa.house.gov/international_relations/107/80964.pdf).
19. Oxfam, p. 17.
20. *Ibid.*, p. 49.
21. See Mary Bohman, Lowell Jarvis, and Richard Barichello, "Rent Seeking and International Commodity Agreements: The Case of Coffee," *Economic Development and Cultural Change* 44, no. 2 (January 1996): 381–82.
22. Takamasa Akiyama, "Coffee Market Liberalization since 1990," in *Commodity Market Reforms: Lessons of Two Decades*, ed. Takamasa Akiyama et al. (Washington: World Bank, March 2001), p. 83.
23. See Bohman, Jarvis, and Barichello; see also Mary Bohman and Lowell Jarvis, "The International Coffee Agreement: A Tax on Coffee Producers and Consumers?" unpublished working paper, 1999, copy in author's files.
24. See Akiyama, pp. 93, 106.
25. Under the old regime of export quotas, a number of countries—the Soviet bloc, and later Israel and New Zealand—stood outside the system. Those non-member countries constituted between 10 and 20 percent of world coffee consumption, and they were able to import coffee without quota restrictions and at steeply discounted prices—30 to 50 percent below world prices. See Takamasa Akiyama and Panayotis N. Varangis, "The Impact of the International Coffee Agreement on Producing Countries," *World Bank Economic Review* 4, no. 2 (May 1990): 159. Countries with unfavorable quota allotments thus ended up selling relatively high proportions of their total production to nonmember markets at below-market prices.
26. See "Drowning in Cheap Coffee," *The Economist*, September 27, 2001.
27. See Donald Larson and Panos Varangis, "Using Markets to Deal with Commodity Price Volatility," World Bank Poverty Reduction and Economic Management Network PREM Note no. 13, January 1999.

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