The question of the “resilience” of Global Value Chains (GVC) has risen since the outbreak of the COVID-19 pandemic to the top of the economic and global political agenda. This concern is exacerbated by climate change, supply chain bottlenecks, the growing price of inputs and raw materials, as well as uncertainties regarding the pace of the recovery of the global economy.

The coffee price has doubled in just a few months and reached a 10-year high. Supply shortages, due to climate, political and pandemic-related stress factors are forcing all operators, from coffee growers to speculators, traders to roasters, and retailers to consumers, to make swift short-term choices to guarantee smooth and timely sourcing of coffee beans.

The coffee industry is also assessing medium- and long-term strategic options and devising new supply chain risk-minimisation strategies to build a stronger GVC resilience and sustainability centred into public and private partnerships, as shown by the 2030 roadmap of the International Coffee Organization (ICO) Coffee Public-Private Sector Task Force (CPPTF). Its focus is on achieving living income and prosperity for farmers, climate change mitigation and adaptation, building resilient landscapes and creating a level playing field for a true sector transformation.

Coffee-producing countries’ governments, recovering from the dramatic “green coffee price crisis”, are finally able to benefit from higher revenues from coffee sales and are expected to focus on investing effectively into the future of their coffee sector.

Looking at the demand side, the prospects are promising. The COVID-19 pandemic has affected consumption but now there is hope for a full recovery, possibly returning to around 2 per cent growth, depending also on how the increased green coffee prices will be transferred to consumers. The forecast by J. Sachs et al, ‘Ensuring Economic Viability and Sustainability of Coffee Production’ published in October 2019 by the Columbia Center on Sustainable Investment, projected an increase of 26 per cent by 2030. This was based on a “business-as-usual scenario” where prices were expected to stay on the low side. Nevertheless, consumption exceeding 200 million bags may not be too far from reality even before 2030. And under the current circumstances, a demand-supply gap may still occur in the not-to-distant future.

Nowadays, the most important question in the mind of all coffee stakeholders is the duration of high prices. Most analysts do not expect this trend to be reversed soon. Cyclical ups and downs in coffee market price are expected to happen as usual, but their extent and duration will depend on the realisation of needed structural changes and on market dynamics and sourcing concentration versus differentiation and specialisation. These will be key factors influencing the future of supply and demand, the sector’s value distributions, and, therefore, coffee price levels.

The second most important question for the coffee sector is its high sensitivity to variations in climate. We know that some coffee production areas are climate-sensitive and may become unsuitable for cultivation with increasing temperatures. Therefore, climate change is a major resilience stressor with consequences on livelihoods of coffee farmers as well on the supply-side of the coffee value chain. In the ICO Coffee Development Report 2020 we had considered that the GVC impact of key stressors such as climate-related risk and concentration of origins was low in the short-term. The evolution of the market in 2020/21 showed exactly the contrary as...
these stressors impacted the coffee sector significantly.

Specifically, the concentration of production in fewer countries, and for industry in fewer hands, we are currently witnessing is increasing the “fragility” of the coffee supply chain. Is this process going to continue or do new scenarios need to be considered? While businesses may not abandon their consolidation strategies with more mergers and acquisitions – and with increased risk of further reducing farmers’ bargaining power – will small producing countries, small growers, local roasters, and retailers have new opportunities as we build back better the global economy?

A series of recent interviews conducted by the ICO with key industry leaders and members of the ICO CPPTF clearly shows a generalised interest by industry in sourcing from a larger number of origins and in making greater investments in sustainability. Growing demand will be a significant opportunity for current and future suppliers but it will depend on the trade-off between risk-minimisation and costs related to expand the procurement options.

Continue buying from highly efficient origins, from known and reliable partners capable of providing constant quality coffee beans and with consolidated transaction systems and practices is still an easy option, Working with more origins may imply higher transaction costs and would require substantial investment in the revitalisation of coffee plantations and marketing systems. These costs should be offset by reduced procurement risks and increased options to consumers. Let’s see the conditions for diversifying supply by learning from the past.

NEW ORIGINS, NEW PATTERN

The ICO has been collecting data on coffee prices, production, trade, and consumption from the ICO World Coffee Statistics database since 1963. This information will be available online from February 2022 onwards and furnishes an incredible wealth of data and opportunity for analysis.

In order to analyse the options for diversifying sourcing strategies, the ICO reviewed the changes in the production patterns from the 1960s to today. In the period 1964 to 1970, Americas (South and Central America, Mexico, and the Caribbean) accounted for an average of 71 per cent of global production, which fell to 60 per cent from 2017 to 2021. However, the most striking change is the expansion of production in Asia and the Pacific from 8 per cent to 29 per cent over the same period.

Even stronger changes occurred over the years in the contributions of different origins to global and regional production, with a widening gap between countries in terms of efficiency and productivity.

In 2020-21, only four countries – Brazil, Vietnam, Indonesia, and Colombia – accounted for more than 5 per cent of world output. Together, they provided 71.2 per cent of global green coffee production. If we add the three next largest producing countries – Honduras, Ethiopia, and Uganda – these seven countries are responsible for almost 79 per cent of world production. In comparison, from 1964 to 1965, five countries accounted for more than 5 per cent of production and collectively reached 61.9 per cent of total world production. These were Brazil, Colombia, Angola, Côte d’Ivoire, and Mexico.

Among coffee producing countries, only Brazil’s leading position continued unchanged: it has been the world’s top producer till today, jumping from around 15 million 60-kilogram bags from 1964 to 1965 to almost 69 million in 2020-21, representing 51.6 per cent of the region and 36.4 per cent globally, then to the 60.2 per cent regionally and 36 per cent globally in 2021.

In the America region, South and Central America, Mexico and the Caribbean, Colombia also consolidated its leading position in the “Champion’s League”, joined lately by emerging countries such as Honduras, Peru, Nicaragua, and Guatemala. Others implemented different upgrading strategies, for example Costa Rica, by moving into the specialty coffee or others like Mexico that upgraded their sector through value addition and exporting processed coffee.
The Asia and the Pacific region witnessed the most striking coffee boom. The upturn in production, trade and consumption closely followed the outstanding social and economic evolution in the region, especially in countries like Indonesia and Vietnam and, more recently, China. On the other hand, Cambodia, for example, was the second largest producer in Asia in the 1960s, producing between 1.4 and 1.8 million 60-kilogram bags till the 1980s, but then declined progressively with an output of just 304,000 bags in 2021. The progress of Indonesia, India, and above all Vietnam, are remarkable. The latter produced 78,000 bags in 1980 and more than 28 million bags in 2020/21. Indonesia and India produced in 2017/21 an average respectively of 11.1 million and 5.6 million bags. Countries like Thailand and the Philippines also upgraded successfully through value addition.

The African coffee sector has suffered a major contraction over the last six decades, with a significant reduction in its productive capacity. The continent’s share of global production declined from 21 per cent from 1964 to 1970 to 11 per cent in 2017/21. Many reasons have been identified by analysts, such as political instability and uncertainty; reduced investment, resources and extension services; poor trade, logistics and physical infrastructure; limited capital formation; overregulated markets with ineffective productive and marketing system and strategies; and limited domestic consumption. Situation may be changing also due to the opportunities for increased inter-African trade thanks to the African Continental Free Trade Area (AfCFTA) agreement. Furthermore, the evolution of countries such as Uganda and Ethiopia, or to a lesser extent, other producers like Rwanda, Côte d’Ivoire, Tanzania, and Kenya, may help Africa to find its own coffee path, developing internal, continental, and foreign markets to catch up with the rest of the world.

In Africa, five countries produce 91.1 per cent of the continent’s output with 20 producers providing the remaining share. African producers, and especially those 20 small producing countries, need to be supported by local and foreign investors, and local governments and development partners, to access resources and know-how, try new varieties and good agricultural practices, and take advantage of proximity with leading consuming markets. Investing into coffee could contribute to reduce poverty and create income and job opportunities, especially for young African women and men.

Looking more closely at the last 20 years, the coffee sector is clearly quite dynamic. In the last two decades, four out of 10 top producers have been replaced by other origins. In addition, substantial increase in domestic consumption in some producing countries, especially Brazil, Indonesia and Ethiopia, has been a key factor for their own expansion.

The “coffee-champions” are 13 coffee producing countries with more than 1.5 million 60-kilogram bags produced from 2017 to 2021, which together accounted for 93.7 per cent of global output in the last five years.

The remaining 40+ countries account for a mere 6.3 per cent of total coffee production. Among them, some may not be top producers in volume but have increased their earnings by successfully upgrading focusing on both the highly profitable specialty coffee market segment and/or through value addition.

From the demand side, buyers’ attention on small origins may be happening now as a risk management measure, however, as mentioned, substantial investment would be required. Revitalising coffee plantations, improving productive and logistic infrastructure and skills, transferring sustainable agribusiness practices in small coffee-producing countries to achieve required quality and efficiency, is costly and does not happen overnight.

As seen by the analysis of the changes in the past, many small or less-efficient producers may well become the new champions. What about those whose market position has shrunk or even disappeared: do they have a chance to come back? Or will new ones emerge as major producers? Whatever choices are be made by industry and governments, there is the need for concerted action, public and private, blending international development, commercial finance and local investment. Learning from the success and errors of the past can be useful so small producing countries understand their own weaknesses and strengths and focus on identifying new market opportunities. This could include expanding on sustainable production, increasing productivity by applying more cost-effective
production techniques, or upgrading the coffee sector by repositioning from bulk to high quality and specialty coffee production, or adding value though processed and branded products.

Sound coffee sustainable development strategies need to be implemented. The role of governments must be defined and create the required enabling environment without adding unnecessary constraints, while making all supporting institutions and infrastructure effective, especially engaging all stakeholders by building national public-private partnerships and platforms. Entry barriers for small producers will be there as intense competition with high-efficient producers will not disappear so speeding up the transition from traditional to sustainable production can pay off. Every producing country and private sector actor will have to match the buyer’s demand and shall respond and adapt to consumers’ behaviour, especially that of the new generations, millennials, and Z-gen. Their behaviours will determine the demand and the sourcing pattern with unstoppable growing concern for sustainability.

Concentration on the industry side is increasing but is not necessarily linked with price levels. As mentioned in the Coffee Barometer 2020, a small number of very large roasters dominates the coffee market, all but one of which have their headquarters in Europe or the United States. The five largest trade houses handle a total of 62.5 million bags, an equivalent of half of the total green coffee export production in 2019. Further downstream the value chain, the top-10 roasting companies process 35 per cent of global coffee output.

Does this consolidation process influence the ability to invest in the diversification of origins? Does it facilitate overcoming supply chain constraints and enable consistent implementation of sustainability initiatives? Difficult to say, however, risk management through origin, product and market differentiation matched with greater investment in sustainability is in the plan. Furthermore, consumer demand and changing standards and legal requirements may also further induce the need to have broader buying choices.

ABOUT US

This article was written by Gerardo Patacconi, Head of Operations of the International Coffee Organization (ICO). Patacconi is an economist statistician and agribusiness development expert. At the core of his experience is policy and strategic advice, development, fund raising and management of large-scale operations and development projects to address poverty and sustainability. Patacconi has strong emphasis and success on building Public-Private Partnerships covering the coffee sector and other agribusiness value chains.

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