



Economic and Social Council

TOPIC A:

Preventing the Upcoming Global Coffee Crisis

Undersecretary:

Alejandro Gallegos H.

INTRODUCTION

The coffee industry is one of the markets that supports many countries' economies nearly in their entirety. Climate change will affect coffee farms, and the lack of government support is not helping them either. The lowest cost for a pound of coffee in 2019 was \$0.88, which is one of the lowest it has been in more than ten years. Multiple citizens in producing countries depend on imports and exports of the bean. It is imperative that market prices recover and become stable in order to keep them from dropping again and to avoid an economic depression.

BACKGROUND RESEARCH

The International Coffee Organization (ICO) was founded in the year 1963 with the purpose of giving structure to the coffee market, but their goal has been threatened several times by the price drops and inflation. Their International Coffee Agreement (ICA) is what sets the guidelines and limits for different countries to follow, but it is only followed until a previously set date. After its expiration, there is a renegotiation of the terms, and a new agreement is made. There have been seven ICAs, which were agreed upon by the organization in the years 1962, 1968, 1976, 1983, 1994, 2001, and the last one, 2007. There has not been another negotiation of the terms up to date, and prices have fluctuated significantly over the last decade.

One of the standards that the ICA sets is the price minimum of coffee per pound, and it is one of the main factors that decides if the coffee industry is profitable or not. Since the breakdown of the ICA in the 1980's, many countries have entered the market selling the bean for a considerably lower amount of money. This causes the profit margin to be reduced for the farmers in other nations. After years of stability, the Colombian production started plummeting in 2009, staying low until 2014, in which they reached their average coffee bean bag production again. It was around this time that the highest price came to be dangerously expensive, at \$2.91 per pound. In 2019, numbers became a problem again, when in May, the lowest price point in over a decade was recorded, being sold at \$0.88 (Macrotrends, 2020).

Coffee producing countries are located near the equator, and this is because the climate around that latitude has the perfect condition for the plant to grow properly. There can be fungi invading the farms, which makes infested plantations unfit for cultivation. This causes money loss and

hardly any producer has the budget to move the crops to a different site. Farmers are also running out of space to grow coffee plants, as climate change has become a major problem for them. According to Vox's Sam Ellis, "A recent study estimates that by 2050 the amount of land that can sustain coffee cultivation will be reduced by 50% and [...] 60% of wild coffee species could be at the risk of extinction because of climate change", which means that the industry could become exclusive to some countries, and the market could fall victim to the biggest inflation it has ever faced.

Support and funds have been requested by the whole coffee industry around the top producing countries: Vietnam; Brazil, Colombia, Ethiopia, Kenya and others. Subsidies have been provided to the farmers in countries like Colombia, but many others need the economic support to sustain their business. In Ethiopia, this market is their primary income, but there is an estimated 70% yield loss as a result of droughts, high temperatures, and other natural factors. There is a lack of economic help from their government that prevents them from reaching maximum profit, which means that even if they produce large amounts of coffee beans, if they cannot sell them, there is an extreme loss of money. There are NGOs that aim to diminish this issue by creating aid funds, like the National Federation of Coffee Growers (Fedecafe), in Colombia, which seeks to stabilize and support local growers.

This is a problem that not only affects producers, as it also poses a threat to consumers, because if production becomes more expensive, naturally, the cost of a cup of coffee will also rise. Some cafés already started making their prices higher in 2019, charging 5.8% more than they did (Prasad, 2019). Farms do not pay enough to be considered a profit, and farmers are losing their estates because they cannot afford to pay for taxes and other costs. All of this is leading the market to an imminent crash that could potentially cause a strong economic depression all over the world.

UNITED NATIONS INTERVENTION

In 2011, the president of the ICO reached out to the United Nations by presenting problems with the industry in the Least Developed Countries (LDCs). There is no record of a solution being presented, but the ICO has made other propositions. Jeffrey Sachs, from Columbia University has also requested there be an annual \$10bn global coffee fund in case of plummeting prices or crisis. In order for the coffee industry to become stable, financial support of this magnitude is needed to keep local and international coffee producing companies that struggle at the moment. As for the diminishing of surplus, which causes prices to lower unnecessarily, the ICO has previously encouraged the destruction of 5% of it in order to keep the product sales flowing (Craves, 2006).

POINTS TO CONSIDER

- The importance of coffee as a market in the global economy and international commerce.
- The proposals that organizations like Fedecafe and ICO have made and how they have put them in action.
- The countries that consume the most coffee and the countries that produce it and how they plan to evade this crisis.

QUESTIONNAIRE

- A. What is my country's position?
- B. What are my country's policies?
- C. What can my country do to solve this issue?
- D. Which countries can my delegation work with?
- E. What are three possible solutions?
- F. What has been done to solve the problem?

USEFUL LINKS

- <https://www.bbc.com/news/world-us-canada-48631129>
- <https://www.vox.com/videos/2020/8/10/21361950/coffee-crisis-climate-colombia>
- http://www.ico.org/icohistory_e.asp?section=About_Us
- <https://www.macrotrends.net/2535/coffee-prices-historical-chart-data#:~:text=The%20current%20price%20of%20coffee,2020%20is%20%241.1445%20per%20pound.>

BIBLIOGRAPHY

Prasad, R. (2019, July 11). How the 2019 coffee crisis might affect you. Retrieved November 26, 2020, from <https://www.bbc.com/news/world-us-canada-48631129>

Key events in the history of the International Coffee Agreement. (n.d.). International Trade Centre. Retrieved November 26, 2020, from

<http://www.thecoffeeguide.org/coffee-guide/world-coffee-trade/key-events-in-the-history-of-the-international-coffee-agreement/>

Ellis, S. (2020, August 10). The global coffee crisis is coming. Retrieved November 26, 2020, from <https://www.vox.com/videos/2020/8/10/21361950/coffee-crisis-climate-colombia>

Coffee Prices - 45 Year Historical Chart. (n.d.). Macrotrends. Retrieved November 26, 2020, from <https://www.macrotrends.net/2535/coffee-prices-historical-chart-data#:~:text=The%20current%20price%20of%20coffee,2020%20is%20%241.1445%20per%20pound.>

Craves, J. (2006, February 08). The Coffee Crisis. Retrieved November 26, 2020, from https://www.coffeehabitat.com/2006/02/the_coffee_cris/

History. (n.d.). International Coffee Organization. Retrieved November 26, 2020, from http://www.ico.org/icohistory_e.asp?section=About_Us

Tadesse, T., Tesfaye, B., & Abrera, G. (2020, April 20). Coffee production constraints and opportunities at major growing districts of southern Ethiopia. Retrieved November 26, 2020, from <https://www.tandfonline.com/doi/full/10.1080/23311932.2020.1741982>

Quiénes Somos. (2020, June 03). Federación de Cafeteros de Colombia. Retrieved November 26, 2020, from <https://federaciondefcafeteros.org/wp/federacion/quienes-somos/>

ICO's Public-Private Task Force Shifts the Future of the Coffee Sector Towards a Prosperous Income for Coffee Farmers. (2011, May 13). International Coffee Organization. Retrieved November 26, 2020, from http://www.ico.org/show_news.asp?id=258