

REVIEW OF AFRICAN COFFEE MARKET SITUATION COFFEE YEAR 2013/2014

I. Introduction

This report takes stock of the latest developments in the world coffee industry, specifically, the African coffee sector, with a particular emphasis on coffee Year 2013/2014. The analysis takes into account market fundamentals such as supply and demand as well as the price situation.

The development of the coffee industry is highly dependent on the global economy environment. According to a UN report on the situation and prospects, the global economy will experience 3% growth in 2014 and 3.3% in 2015 against an estimated growth of 2.1% for 2013.

The long recession has ended in the Euro area, which is the world traditional coffee market with the United States, but the prospects for growth remain fragile. In 2014, we expect an increase of 1.5% of the GDP in Western Europe. The growth of the United States has somewhat consolidated the gross domestic product (GDP) of the United States which is expected to increase by 2.5% in 2014.

Some great booming countries including China and India, have managed to curb the economic downturn they have suffered in the past couple of years and have bounced back slightly. The slowdown in the economic activities of China has stabilized and growth should logically be maintained around 7.5% in the next few years. India posted its lowest growth over the last twenty years, which was accompanied by significant deficits in the current account and the government budget, in addition to high rates of inflation. But it is expected that growth improves to exceed 5% in 2014. In Russia, growth again declined in 2013, while industrial production and investment were in regression and expected to recover slightly to reach 2.9% in 2014.

Among the developing regions, growth prospects in Africa remain relatively strong. After a forecast of 4% growth in 2013, the projections can be expected to increase by 4.7% GDP in 2014.

These factors suggest a rise in global growth. The development of international trade is projected to pick up slightly to reach 4.7% in 2014. Forecasts show that the prices of most commodities will remain unchanged, although an unexpected jolt from the supply side, including geopolitical tensions, could drive up these prices.

Given the global environment described above, what is the general situation on the world coffee market, and particularly on the African coffee market?

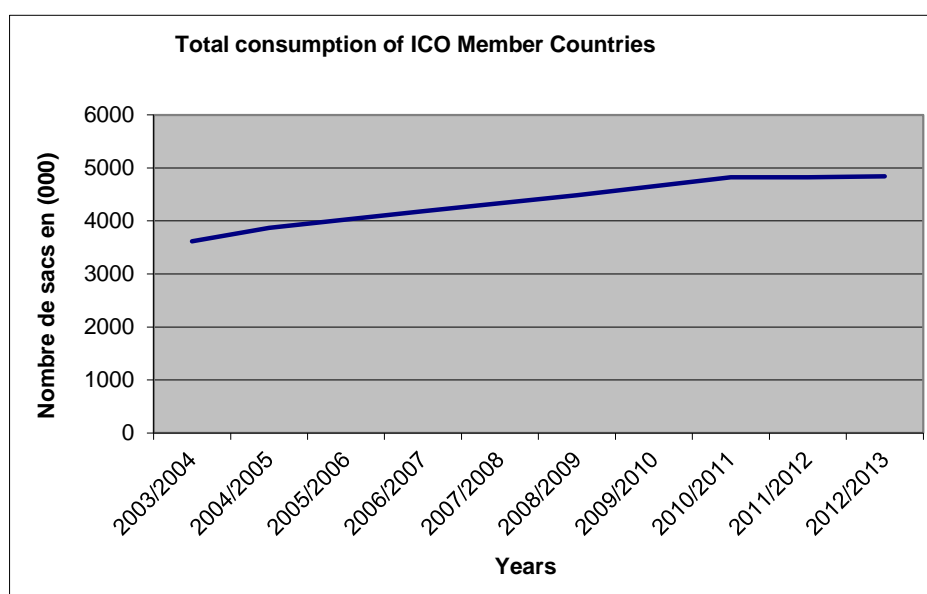
II. Consumption

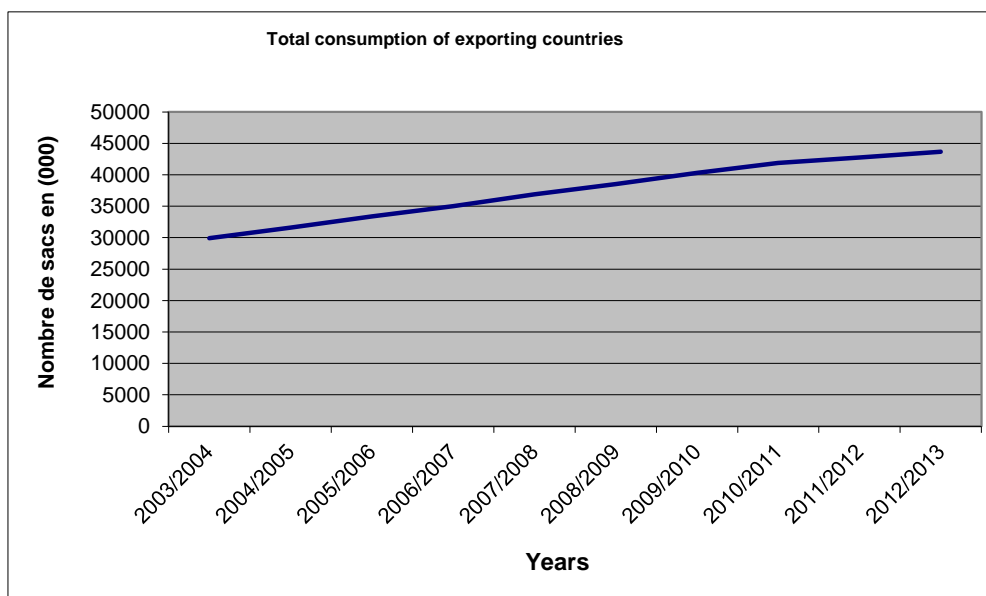
II-1. Domestic consumption of IACO Member States

Coffee Years 2003/2004 and 2012/2013 in (000) bags

Country	Type of coffee	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
Angola	(R)	15	15	15	30	30	30	30	30	30	30
Benin	(R)	0	0	0	0	0	0	0	0	0	0
Burundi	(A)	2	2	2	2	1	1	1	2	2	2
Cameroon	(R/A)	69	69	69	69	69	69	69	69	69	69
Central African Republic	(R)	4	3	3	3	3	5	8	8	8	8
Congo (Brazza)	(R)	3	3	3	3	3	3	3	3	3	3
Côte d'Ivoire	(R)	317	317	317	317	317	317	317	317	317	317
Ethiopia	(A)	2353	2478	2609	2748	2894	3048	3210	3383	3383	3400
Gabon	(R)	0	0	0	0	0	0	0	0	0	0
Ghana	(R)	1	2	2	1	2	2	2	2	2	2
Guinea	(R)	50	50	50	50	50	50	50	50	50	50
Equat. Guinea	(R)	0	0	0	0	0	0	0	0	0	0
Kenya	(A)	50	50	50	50	50	50	50	50	50	50
Liberia	(R)	5	5	5	5	5	5	5	5	5	5
Madagascar	(R)	333	467	467	467	467	467	467	467	467	467
Malawi	(A)	1	1	1	1	1	1	1	1	1	1
Nigeria	(R)	40	40	40	40	40	40	40	40	40	40
Uganda	(R/A)	131	120	135	140	140	140	140	140	140	140
RD Congo	(R/A)	200	200	200	200	200	200	200	200	200	200
Rwanda	(A)	0	1	1	1	1	1	1	1	1	1
Sierra Leone	(R)	5	5	5	5	5	5	5	5	5	5
Tanzania	(A/R)	27	37	47	47	47	47	47	47	47	47
Togo	(R)	2	2	2	2	2	2	2	2	2	2
Zambia	(A)	1	1	1	1	1	1	0	0	0	0
Zimbabwe	(A)	4	4	4	4	4	4	4	4	4	4
TOTAL IACO		3613	3872	4028	4186	4336	4488	4653	4826	4826	4843
TOTAL Exporting countries		29,909	31,619	33,395	35,010	36,874	38,527	4,0325	4,1873	4,2745	4,3694

Source: ICO





Domestic consumption in the exporting countries is experiencing a strong momentum, from about 30 million bags in 2003/2004 to 43.69 million bags in 2012/2013, i.e. an increase rate of 45% over a period of ten years and an average increase rate of 4.5% per annum.

Domestic consumption in IACO Member States increased from 3.6 million bags in 2003/2004 to 4.84 million bags in 2012/2013, i.e. an increase rate of 34% over the last decade. Over the same period, domestic consumption in IACO Member Countries which represented 12.07% of domestic consumption in exporting countries in 2003/2004 is only 11.08% in 2012/2013. In IACO Member Countries, consumption is quite negligible, even in the major producers of the continent, except Ethiopia, consumption remains weak. The main obstacle to coffee consumption in these countries seems to be the lack of knowledge of the product (coffee) and its health benefits. People have only prejudices to coffee consumption.

With a domestic consumption of 20.3 million bags during Coffee Year 2012/2013 and 46.5% of consumption in exporting countries, Brazil is not only the largest consumer among the coffee exporting countries, but also, the second largest consumer in the world behind the United States of America. The other exporting countries with relatively significant levels of domestic consumption are: Indonesia (8.3% of domestic consumption of all exporting countries in 2012/2013), Ethiopia (7.8%), Mexico (5.4%), Philippines (5%), India (4.4%), Venezuela (3.8%) and Viet Nam (3.6%). Ethiopia remains the sole IACO Member Country that has a fairly significant level of domestic consumption. The other members have negligible levels of consumption. It should be noted that there is huge potential for domestic consumption in medium or long term in these countries, particularly, in view of their economic development prospects. The second obstacle is the distribution of the product to reach a large number of populations.

II-2. Recommendations

To boost consumption in producing countries, a promotion strategy should be put in place. This strategy should be developed and implemented with monitoring and evaluation by a multisectorial Government committee/Private Sector. At the state level, the actors can be: Ministries of Agriculture, Education, Tourism, Communication and Health. At the private sector level, they can be roasters, a network of cuppers for quality of the product and a network of distributors.

The first aspect of the promotion strategy is communication:

- Organize public lectures in schools on Coffee and Health. These conferences could also be held in towns, in large meeting rooms.
- Organize public events for youth with artists with emphasis on Coffee consumption.
- Organise coffee fairs.
- Television and radio broadcasting programs on coffee virtues during listening hours.
- Advertising displays in schools, hotels, airports and public places.
- Create Coffee Clubs in schools and universities.
- Serve coffee as first drink in hotels.
- Establish coffee breaks of about 10 minutes in public and private administration.

All these communication activities, advertisement and marketing will contribute to change coffee image. **We need to talk about coffee like wine by quoting its origin and vintage.**

The second element is the distribution strategy:

Distribution points should be created among the population, hence the idea of creating coffee kiosks in neighborhoods, schools and universities. We must put in place a network of distributors and train the members in coffee making. There is a need to have vending machines in schools and bus stations.

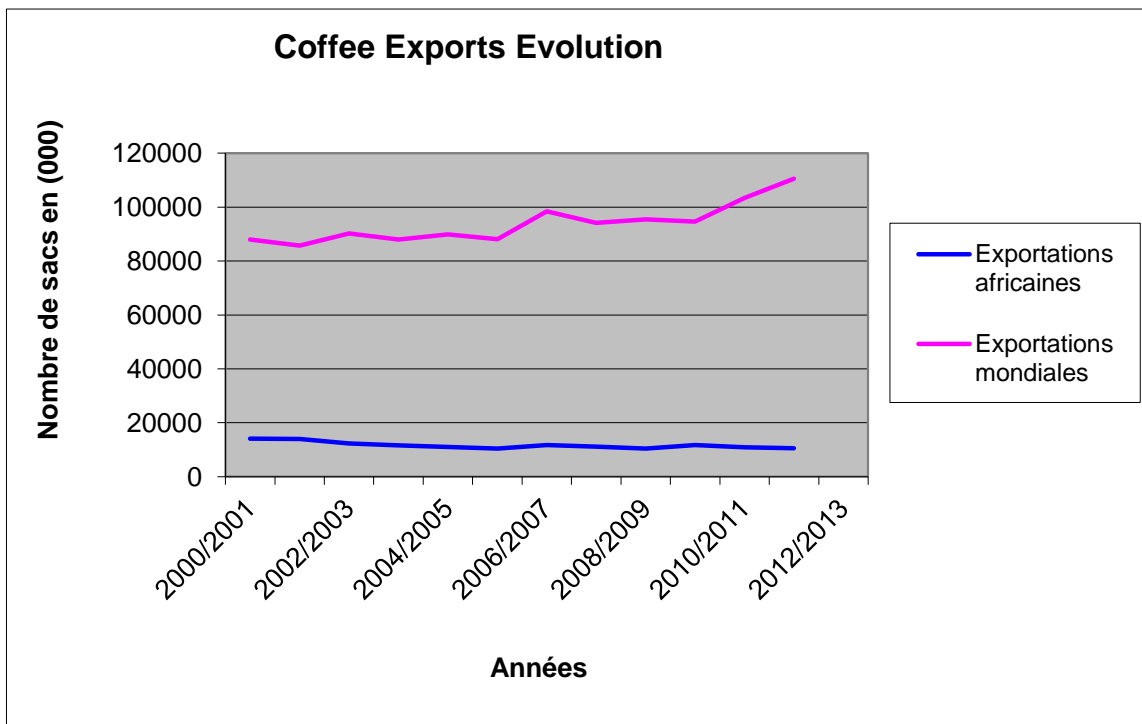
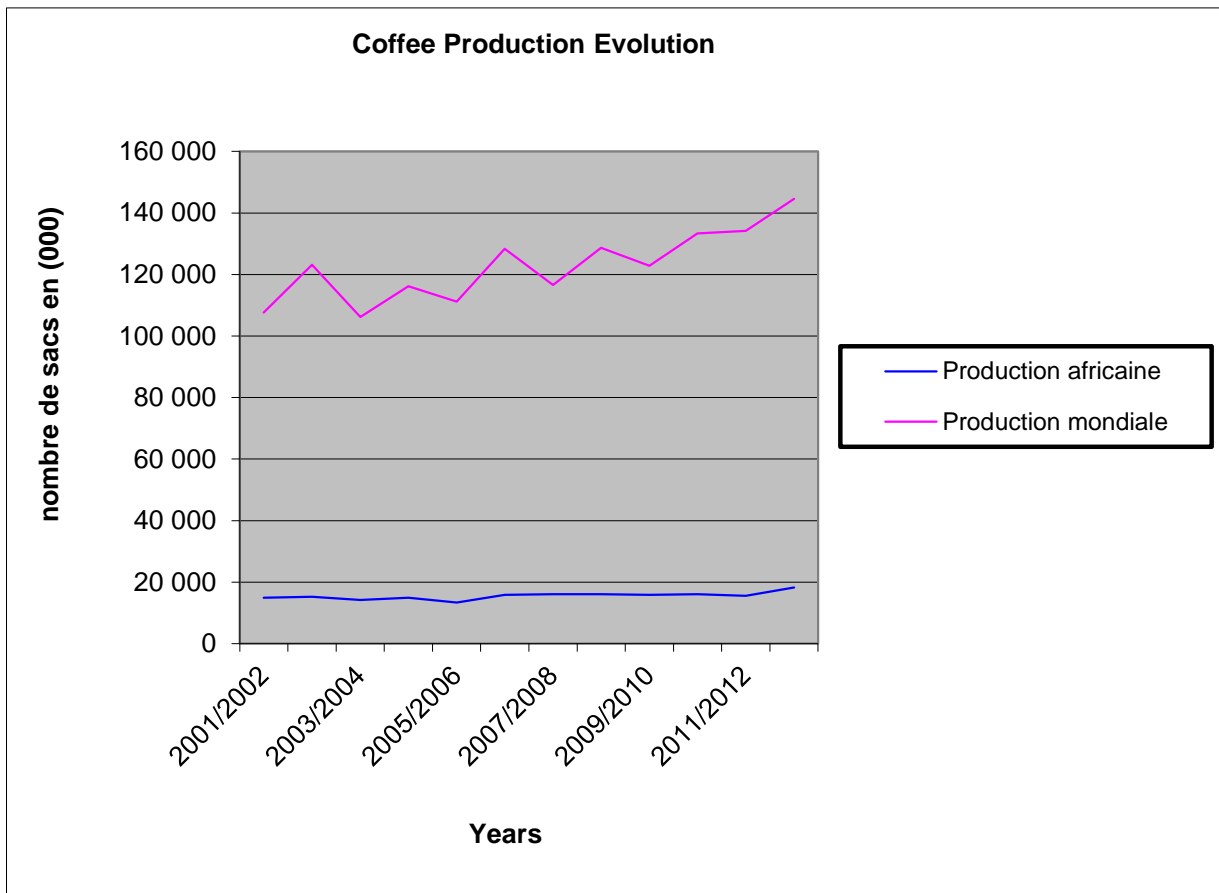
Above all, there should be a focus on quality local processing. All these communication activities, advertisement and marketing of distribution will contribute to boost coffee consumption in IACO Member Countries.

III. Production and Exports of African Coffee

III-1. Evolution of Production and Exports of African Coffees (in 000 bags of 60kg) From 2000/2001 to 2012/2013

Coffee Years	African production	World Production	% African Production compared to world production	African exports	World exports	% African Exports compared to World exports
2000/2001	16,922	112,913	14.98%	14,047	87,970	15.96%
2001/2002	14,902	107,703	13.83%	13,978	85,759	16.29%
2002/2003	15,214	123,109	12.35%	12,321	90,260	13.65%
2003/2004	14,218	106,199	13.38%	11,570	87,980	13.15%
2004/2005	14,931	116,153	12.85%	10,998	89,838	12.24%
2005/2006	13,403	111,169	12.05%	10,348	88,080	11.74%
2006/2007	15,864	128,350	12.35%	11,728	98,442	11.91%
2007/2008	16,107	116,614	12.45%	11,102	94,157	11.79%
2008/2009	16,017	128,622	13.73%	10,453	95,461	10.95%
2009/2010	15,815	122,798	12.87%	11,673	94,589	12.34%
2010/2011	16,120	133,355	12.08%	10,835	103,403	10.47%
2011/2012	15,572	134,140	11.60%	10,503	110,599	09.49%
2012/2013	18,254	144,611	12.62%			

Source OIC



The African coffee production and exports continue to decline. As indicated in the table above, production represents about 12% of the world production, and exports are estimated at 9.49% of global exports in Coffee Year 2011/2012 against 30% in the years 1970s and 1980s, despite the relative improvement in international prices since 2006 and the increase of production in other parts of the world.

Indeed, with the exception of Africa, all the regions have experienced a steady growth in production over the time. The African production registered a negative growth in recent years, falling to an average of 15.8 million bags during the free market against 19.1 million bags when the market was regulated. During the period of market regulation, most of the African countries that benefited from the insurance markets of the European Union within the ACP-EU Agreements and guaranteed producer prices experienced an increase in production through the rapid expansion of the coffee areas planted. The causes of the subsequent decline are first structural due to low yields associated with aging orchards and economic liberalization programs implemented in the 1990s. In some countries, cyclical causes are related to wars.

Countries taken individually, we observe that **Angola** that represented an average of 5% in global production per annum until mid-1970s, lost its place among the major producers of the region with a production of about 33,000 bags during Coffee Year 2012/13. The **Democratic Republic of Congo** and **Madagascar** also fell in the category of countries that experienced production decline with insignificant levels of 327,000 and 522,000 bags respectively. However, coffee growing rehabilitation programs engaged in those countries including Angola, could contribute to reverse the trend. **Côte d'Ivoire** and **Cameroon** are indeed important producers but their production has declined substantially during the free market to 2 million and 366,000 bags respectively. The production performance of **Côte d'Ivoire** declined from an average of 4 million bags per year in 1989/90 to 2.9 million bags from 1990 to 1991. **Cameroon** only produces less than one million bags per year since the advent of free market against 1.5 million bags the previous period. The average production of **Kenya** over Coffee Years 1990/91 and 2012/13 was 1 million bags, against 1.3 million bags during the regulated market period. The average production slightly declined in Tanzania which recorded 792,000 bags in coffee Years 1990/91 and 2012/13, against 820,000 bags from 1963/64 to 1989/90. However, production during Coffee Year 2012/13 improved because it amounted to 1.1 million bags, against 862,000 bags in 1989/90.

The largest production dynamics are observed in **Ethiopia** that experienced an average growth rate of 2.6% per year over the past 50 years, from 3.6% since 1990. The production trend is usually upward despite some downward interruptions reaching 6.4 million bags in Coffee Year 2012/13. In addition, **Ethiopia** is unique in Africa, because its consumption is high and often represents more than half of its production. To a lesser extent, **Uganda** is experiencing a sustainable production dynamics since the average annual production in Coffee Year 1990/91 is 2.9 million bags against 2.8 million bags for the regulated market period reaching 3.7 million bags in 2012/13.

As noted above, causes of the decline are first of all structural and due to low yields relating to aging orchards and economic liberalization programs implemented in the years 1990 that caused the falling prices in early 2000s, that had a strong impact on coffee farmers in the world, especially in Africa. Prices fell to the lowest level up to \$380/ton for Robusta (London-US Cents 17.24/lb) and \$836/ton for Arabica (New York-US Cents 38.00/lb). The producers were very discouraged during the period (1999- 2003) and therefore yields declined at farm level. This was felt at production and exports statistics levels. The cyclical causes are related to wars in some countries.

In this context, one of the major challenges in African coffee growing remains productivity. According to statistics, the Cameroonian coffee farmer produces about 300 kg of green coffee (Robusta and Arabica) per hectare. In Côte d'Ivoire, production costs are high and yields are low, about 200 to 250 kilos per hectare. One of the causes of this counter-performance is the use by farmers, for the creation of new lands, of all kinds of equipment consisting of uprooted seedlings in the undergrowth of the oldest coffee trees. This non-selected planting material is 90% of the coffee planted area in Côte d'Ivoire while the selected clones represent only 10%. The average per hectare in Vietnam is about 2,500 kg. In Brazil, the yields reached 6,000 kg per hectare for Robusta and about 1,150 kg per hectare for Arabica.

III-2. Recommendations

- Easier access to credit for farmers;
- Introduction of measures to give recognition awards to the best farmers as was the case in early 1970s in Côte d'Ivoire as part of cocoa farming promotion;
- Rehabilitation of aging orchards in most producing countries because of the production method (intensive farming);
- Increased productivity by reducing production costs;
- Quality improvement;
- Government intervention (no full liberalization) to help farmers through distribution of high cost inputs;
- Distribution of modern and efficient equipment to farmers;
- Establishment of partnership between private-public sectors;
- Research funding to eradicate coffee diseases;
- Facilitation of Access to inputs;
- Integration and promotion programs for women and youth in coffee farming;
- Easy access to land ownership;
- Promotion of good agricultural practices.

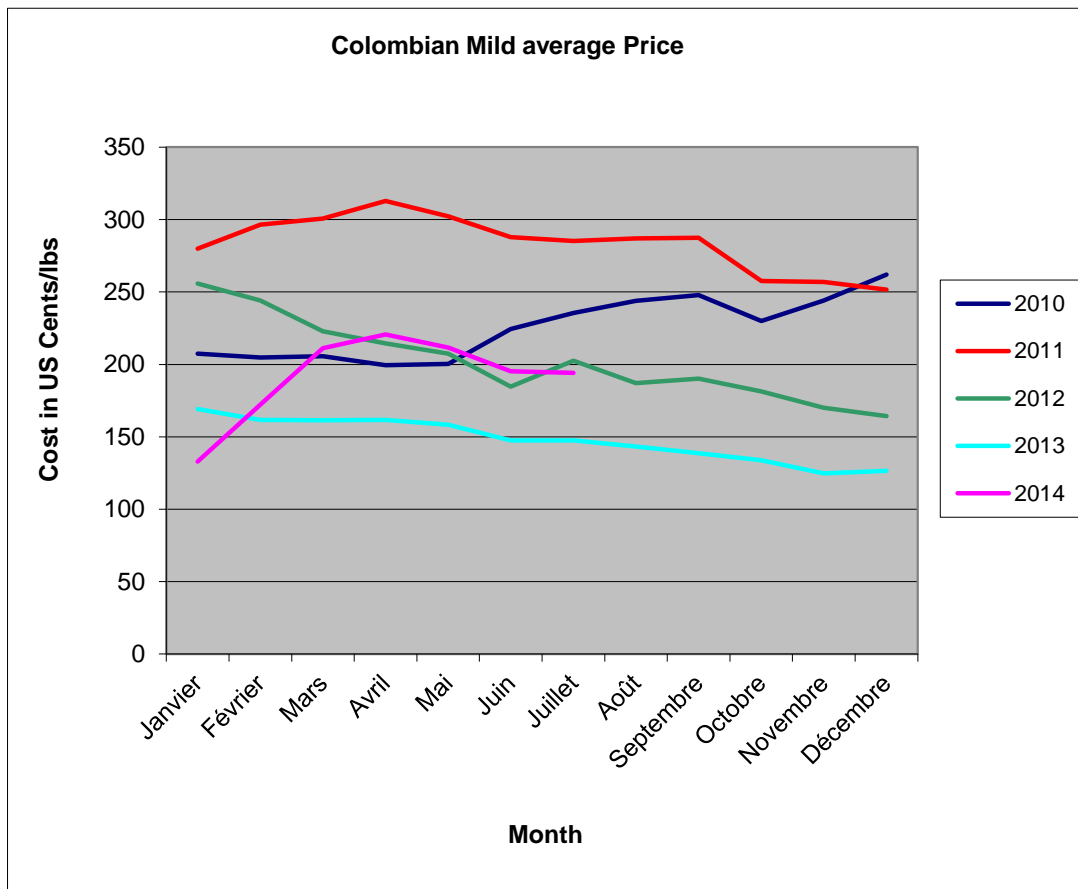
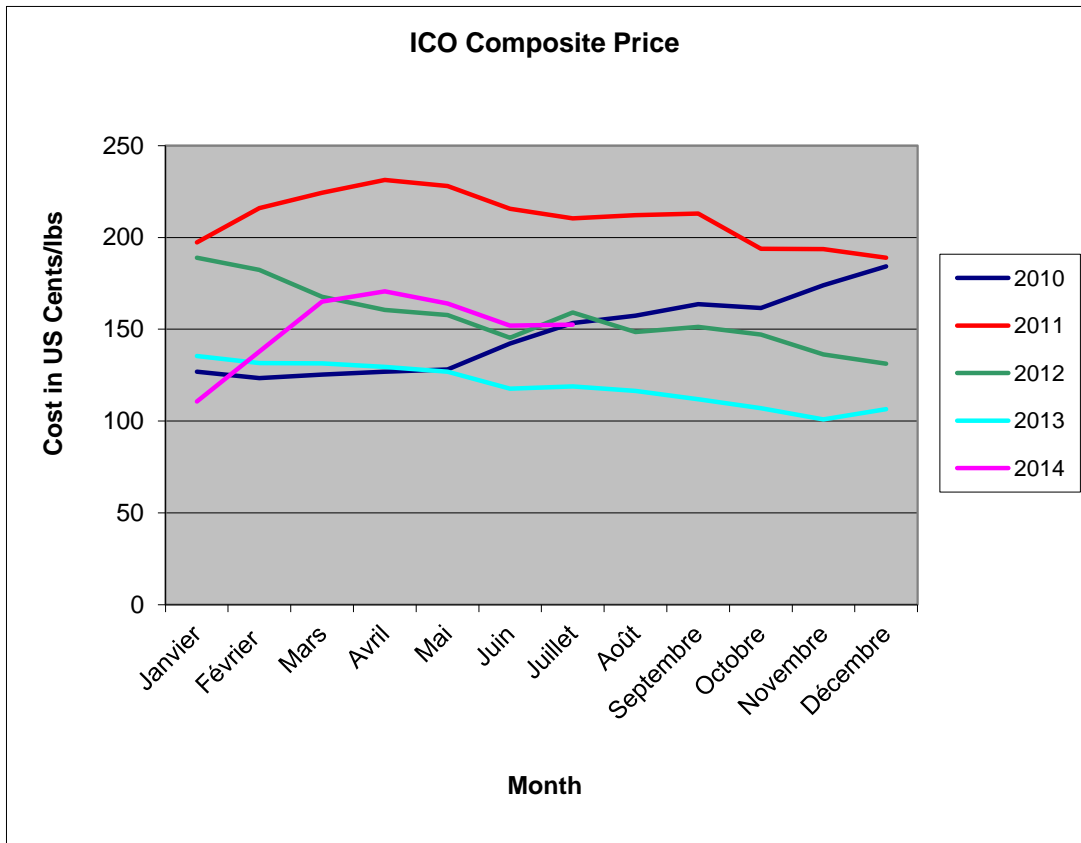
IV. World Coffee Prices

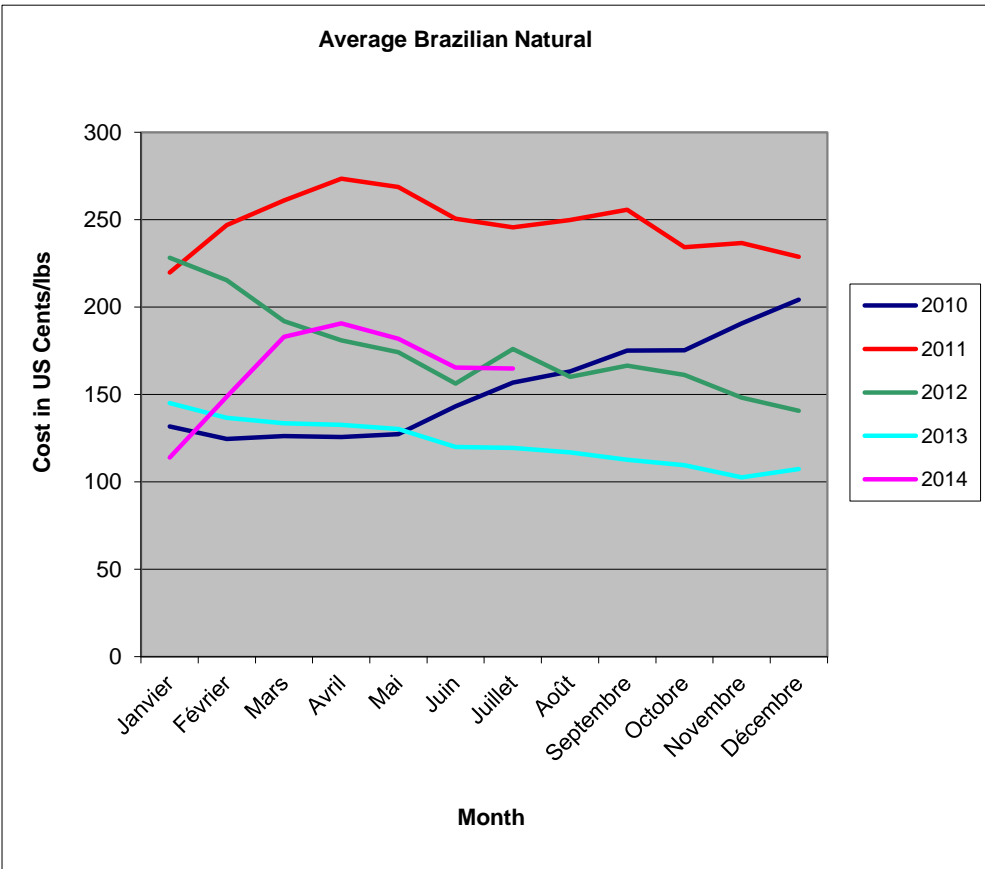
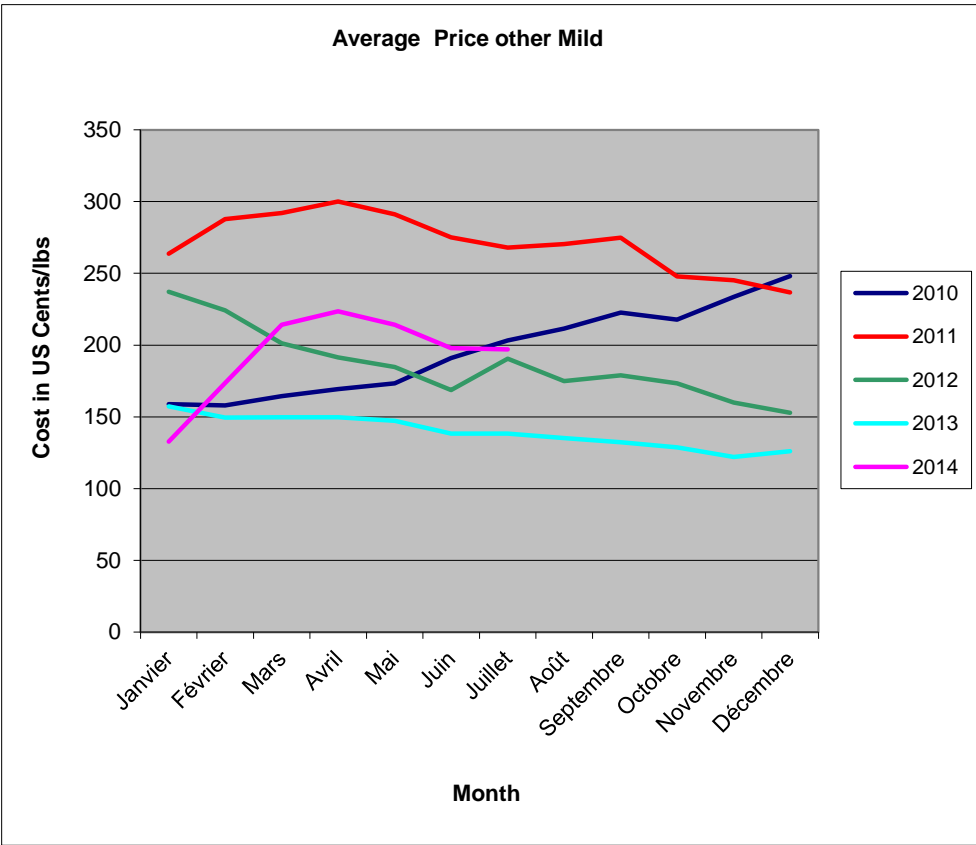
Table: Average monthly prices 2010-2014 (US Cents/pound)

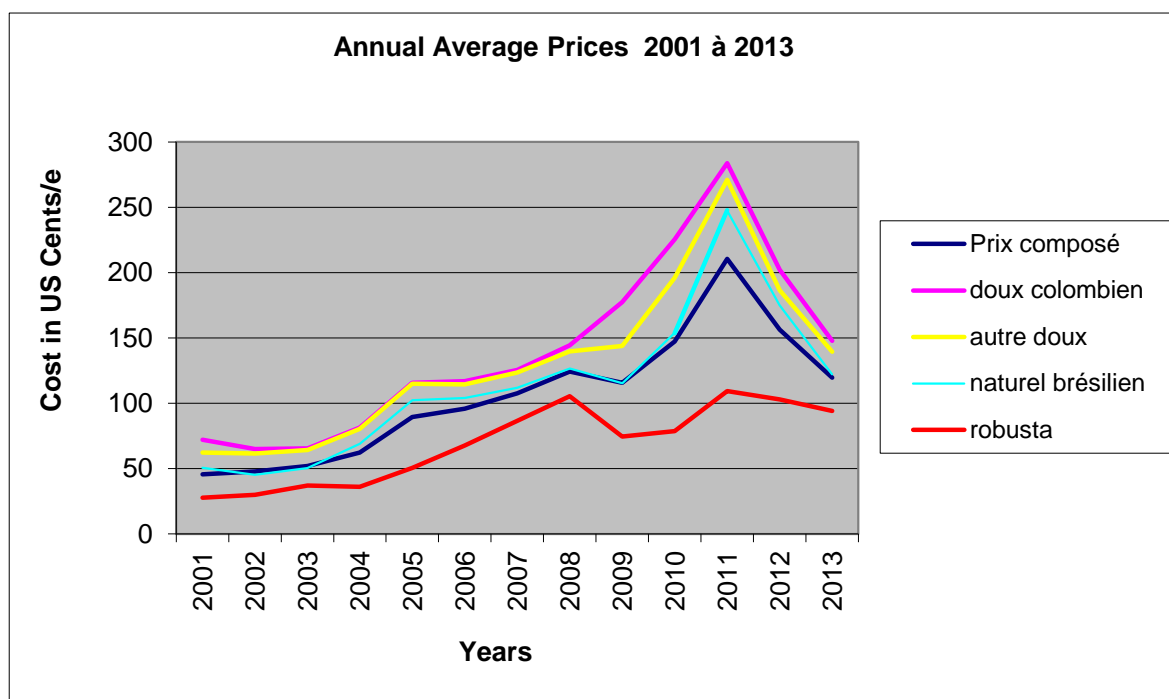
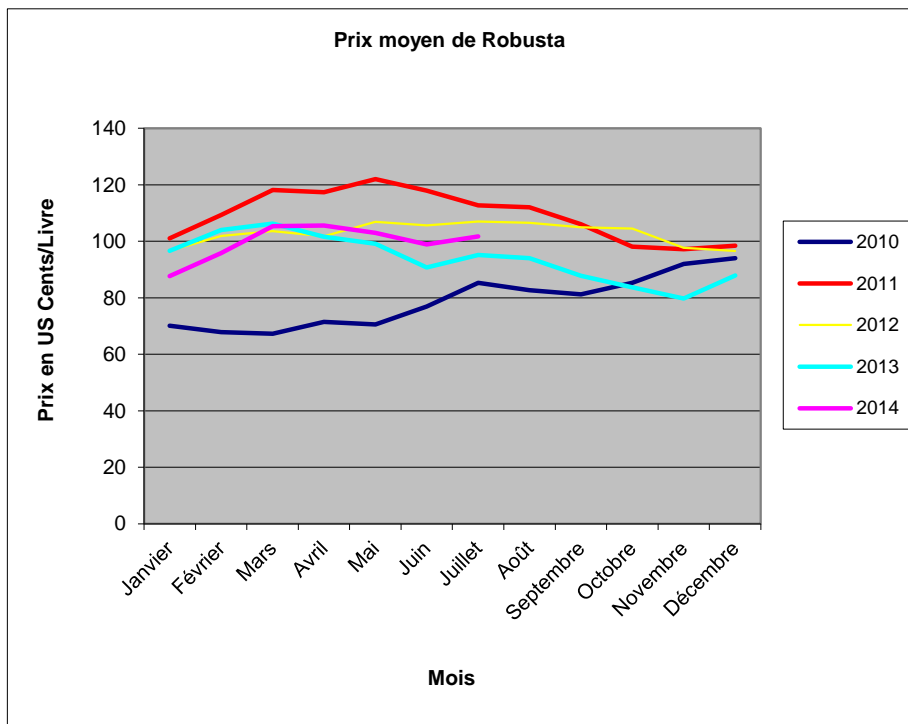
Year/Month	ICO Composite Price	Colombian Mild	Other Mild	Brazilian Natural	Robusta
2010	147.24	225.46	195.96	153.68	78.74
January	126.85	207.51	158.90	131.67	70.08
February	123.37	204.71	157.86	124.57	67.88
March	125.30	205.71	164.50	126.21	67.25
April	126.89	199.50	169.24	125.71	71.52
May	128.10	200.33	173.28	127.32	70.61
June	142.20	224.49	190.90	143.20	76.92
July	153.41	235.52	203.21	156.87	85.27
August	157.46	243.98	211.59	163.21	82.68
September	163.61	247.77	222.71	175.15	81.28
October	161.56	230.02	217.64	175.38	85.27
November	173.90	244.02	233.48	190.62	92.04
December	184.26	261.97	248.17	204.25	94.06
2011	210.39	283.84	271.07	247.62	109.21
January	197.35	279.88	263.77	219.77	101.09
February	216.03	296.44	287.89	247.00	109.35
March	224.33	300.68	292.07	260.98	118.13
April	231.24	312.95	300.12	273.40	117.37
May	227.97	302.17	291.09	268.66	121.98
June	215.58	287.95	274.98	250.59	117.95
July	210.36	285.21	268.02	245.69	112.73
August	212.19	286.97	270.44	249.83	112.07
September	213.04	287.54	274.88	255.64	106.06
October	193.90	257.66	247.82	234.28	98.10
November	193.66	256.99	245.09	236.75	97.24
December	189.02	251.60	236.71	228.79	98.41
2012	156.34	202.08	186.47	174.97	102.82
January	188.90	255.91	237.21	228.21	96.72
February	182.29	244.14	224.16	215.40	101.93
March	167.77	222.84	201.26	192.03	103.57
April	160.46	214.46	191.45	180.90	101.80
May	157.68	207.32	184.65	174.17	106.88

Year/Month	ICO Composite Price	Colombian Mild	Other Mild	Brazilian Natural	Robusta
June	145.31	184.67	168.69	156.17	105.70
July	159.07	202.56	190.45	175.98	107.06
August	148.50	187.14	174.82	160.05	106.52
September	151.28	190.10	178.98	166.53	104.95
October	147.12	181.39	173.32	161.20	104.47
November	136.35	170.08	159.91	148.25	97.67
December	131.31	164.40	152.74	140.69	96.59
2013					
January	135.38	169.19	157.29	145.17	96.69
February	131.51	161.70	149.46	136.63	104.03
March	131.38	161.53	149.78	133.61	106.26
April	129.55	161.76	149.81	132.62	101.68
May	126.96	158.35	147.19	130.29	99.18
June	117.58	147.55	138.26	120.01	90.79
July	118.93	147.46	138.39	119.47	95.21
August	116.45	143.26	135.15	116.81	94.01
September	111.82	138.60	132.28	112.65	87.78
October	107.03	133.83	128.70	109.57	83.70
November	100.99	124.65	122.02	102.57	79.71
December	106.56	126.54	125.97	107.40	87.89
2014					
January	110.75	132.90	132.73	114.02	87.73
February	137.81	172.22	173.64	148.74	95.90
March	165.03	211.07	214.09	182.97	105.37
April	170.58	220.62	223.48	190.62	105.55
May	163.94	211.66	214.20	181.97	102.99
June	151.92	195.17	197.89	165.34	98.91
July	152.50	194.21	196.90	164.92	101.79
August					
September					
October					
November					
December					
ANNUAL AVERAGE PRICE					
2001	45.59	72.05	62.28	50.70	27.54
2002	47.74	64.90	61.52	45.23	30.01
2003	51.90	65.33	64.20	50.31	36.95
2004	62.15	81.44	80.47	68.97	35.99
2005	89.36	115.73	114.86	102.29	50.55
2006	95.75	116.80	114.40	103.92	67.55
2007	107.68	125.57	123.55	111.79	86.60
2008	124.25	144.32	139.78	126.59	105.28
2009	115.67	177.43	143.84	115.33	74.58
2010	147.24	225.46	195.96	153.68	78.74
2011	210.39	283.84	271.07	247.61	109.21
2012	156.34	202.08	186.47	174.97	102.82
2013	119.51	147.87	139.53	122.23	94.16

ICO SOURCE







The downward trend of the indicator composite price observed since the last quarter of 2011 continued throughout 2012 and the first six months of 2013. With the exception of Robusta, prices of other coffee origins followed a similar trend. Coffee prices slightly recovered in July, supported by the possibility of freezing in the coffee growing regions of Brazil, before falling again at the end of the month. The average ICO composite target price rose by 1.2% as compared to the previous month, June, but remains at its second lowest level since September 2009. Concerning Robusta prices, they showed an upward trend from February 2012 and even some firmness. This upward trend of Robusta continued until October 2012, reducing the difference between Arabica and Robusta. After a slight fall in Robusta prices from November 2012 to January 2013, they resumed from February to April 2013. Generally, since February 2012 until August 2013 the reduction of the gap between Arabica and Robusta continued.

Coffee prices steadily declined during 2013 recording falls in nine of the last twelve months. Although prices rose slightly in December 2013 comparing to November 2013, the ICO composite indicator price remains at its second lowest level of the year, and 2013 recorded the lowest annual average price since 2009. These results are due to a surplus of production over consumption. The high prices in 2011 encouraged the producers to invest and increase production.

Coffee prices surged in January 2014; the monthly ICO composite indicator price reached a level of 170.58 cents EU per pound in April 2014, its highest level since March 2012. In terms of the groups' indicative price, the largest increases were observed in the three natural Arabica groups, the monthly averages of Colombian Milds, the other milds and the Brazilian other naturals rose to more than 22% as compared to February. Robusta also jumped to nearly 10%, resulting in an increase in arbitration between Arabica and Robusta. Since April 2014, there has been a trend reversal. All groups are on the downside because of the lack of consensus on the size of the Brazilian crop and adequate stocks to meet the current demand for the production of Colombia which was revised slightly upward (11 million bags), based on the monthly levels of production for the first nine months of Coffee Year 2013/14, already reaching 8.8 million bags, 21.5% more than the same period in Coffee Year 2012/13 and Robusta production is expected to increase by 6% to 59.9 million bags against 56.5 million in 2012/13, an increase due mainly to the record crop of 27.5 million bags in Vietnam.