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**REPUBLIC OF KENYA**



**KENYA NATIONAL ASSEMBLY**

**NINTH PARLIAMENT-FOURTH SESSION**

**DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS  
AND NATURAL RESOURCES**

**REPORT ON THE ATTENDANCE TO 93<sup>RD</sup> SESSION OF THE  
INTERNATIONAL COFFEE ORGANIZATION (ICO) HELD IN  
LONDON, UNITED KINGDOM**

**(16<sup>TH</sup> TO 20<sup>TH</sup> MAY, 2005)**

Clerk's chambers,  
National Assembly,  
**NAIROBI**

May, 2005

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## **PREFACE**

**Hon. Speaker Sir,**

1. The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together producing and consuming countries to address issues facing the world coffee sector through international cooperation. The organization makes practical contribution to the world coffee economy and to improving standards of living in coffee producing and consuming countries by:-
  - i. enabling government representatives to exchange views and coordinate coffee policies and priorities at regular high level meetings;
  - ii. encouraging a sustainable coffee economy and environmental standards;
  - iii. initiating coffee development projects to improve quality and marketing;
  - iv. increasing world coffee consumption through innovative market development activities;
  - v. improving coffee quality through coffee quality improvement programme;
  - vi. working closely with the private sector through a Private Sector Consultative Board which tackles issues such as food safety;
  - vii. providing objective and comprehensive information on the world coffee market; and
  - viii. ensuring transparency in the coffee market through provision of statistics.



2. The 93<sup>rd</sup> session of the ICO took place from 16<sup>th</sup> to 20<sup>th</sup> May, 2005 at the Organization's headquarters in London, United Kingdom. The organization holds such sessions in January, May and September in every year.
3. The Parliamentary delegation to the session comprised:-
  - i. Hon. Peter Gichohi Muriithi, M.P; - Leader
  - ii. Hon. James Nderitu Gachagua, M.P; and
  - iii. Mr. George Gazemba – Secretary
4. The Committee expresses appreciation to the Speaker, the Liaison Committee and the Clerk for sanctioning attendance to the session. The Committee further appreciates the role of the Clerk's office in organizing and providing technical support.

**Hon. Speaker Sir,**

5. On behalf of the delegation and the Committee, it is my pleasant duty to lay a report of the Committee on the participation in the 93<sup>rd</sup> session of the ICO pursuant to Standing Order 162.

**THE HON. FRANKLIN BET, M.P.**  
**CHAIRMAN, DEPARTMENTAL COMMITTEE ON**  
**AGRICULTURE, LANDS AND NATURAL RESOURCES**

**Signed** \_\_\_\_\_

**Date** \_\_\_\_\_

## **THE 93<sup>RD</sup> SESSION OF THE INTERNATIONAL COFFEE ORGANIZATION (ICO)**

### **PARTICIPATING COUNTRIES**

6. The member countries represented at the session were: Brazil, Cameroon, Colombia, Democratic Republic of Congo, Costa Rica, Cote D'Ivoire, Cuba, Belgium, Czech Republic, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Portugal, Guatemala, Spain, United Kingdom, Ecuador, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Honduras, India, Indonesia, Jamaica, Kenya, Malawi, Mexico, Nicaragua, Papua New Guinea, Rwanda, Switzerland, Tanzania, Thailand, United States of America, Vietnam and Zimbabwe.
7. Armenia, China, Croatia, Iran, Morocco, Panama, Peru, Romania, Russia, Sierra Leone, Tunisia attended as observer non members.

### **MEMBERSHIP OF ICO**

8. As at 6<sup>th</sup> May, 2005, the Organization had seventy-four (74) members. Forty four (44) were coffee producing countries while 30 were consumers. Pursuant to the International Coffee Agreement of 2001, new membership formalities had been put in place and all member countries were required to comply by 31<sup>st</sup> May, 2005. The United States of America had acceded to the agreement on 3<sup>rd</sup> February, 2005.

### **THE COFFEE YEAR - 2003/2004**

9. The coffee year 2003/2004 was difficult for coffee producers worldwide. This was recognized by the International community in several ways.

10. First, the European Union whose presence was enhanced in the ICO by the arrival of ten (10) new member states announced a new action plan which is expected to make available new resources for coffee projects.
11. Secondly, a number of new international initiatives to promote the concept of sustainability in coffee were launched. All these initiatives had been extensively debated by the ICO which had been working to ensure that they made the most effective contribution to the world coffee community and further to ensure that the initiatives were disseminated worldwide.
12. Finally the world's largest consumer of Coffee, the United States of America's rejoining of the ICO in September 2004 was a demonstration of the US government's commitment to support multilateral cooperation in the world coffee sector and most welcome by the ICO.

### **THE WORLD COFFEE MARKET - 2003/2004**

#### **Prices**

13. The Coffee year 2003/2004 ended on a positive note for most exporting countries. There was a distinctive improvement in arabica coffee prices compared to previous years. The ICO composite indicator price rose from 51.72 US cents/Ib in October 2003 to 61.47/Ib cents in September 2004.
14. The average for coffee year 2003/2004 increased from 52.17 cents/Ib in 2002/2003 to 57.77 US cents/Ib. The average for 2001/2002 was 45.46 cents. The indicator price for arabica rose while that for robusta recorded a decline. During the year, there was growing interest in niche markets such as that of organic coffee.

### **Production**

15. The recorded total production for the year 2003/2004 was 106.4 million bags. The total production of arabica was 68.8 million bags compared to 74.9 million the previous year. Robusta production was 37.6 million bags compared to 37.1 million the previous year. The share of arabica went down from 66.88% in 2002/03 to 64.65% in 2003/2004, while that of robusta rose from 33.12 to 35.35.

### **Stocks**

16. World stocks in 2003/2004 were 43.7 million bags. At the end of the year 2003/2004, closing stocks in exporting countries were 22.1 million bags, compared to 19.5 million at the end of 2002/2003. Stocks in importing countries were 21.6 million bags which was an increase compared to the year 2003/2003 when it was 20.2 million.

### **Exports**

17. Exports for the year 2003/2004 were 87.49 million bags compared to 88.1 million in 2002/2003. These represented a slight fall of 0.71%. Total earnings for exporting countries from all types of coffee during the year were US\$5.7 billion. The total exports were 87.49 million bags while the previous year's exports were 88.1 million bags worthy U\$5.56 million.

### **Consumption**

18. Domestic consumption in exporting countries in the coffee year 2003/2004 was estimated to be 28.1 million bags compared to 27.6 million in 2002/2003. Brazil remained the leading exporting consuming country with 13.75 million bags consumed in

2003/2004. Ethiopia which consumed 42% of its total production also had a strong coffee drinking tradition.

19. Consumption in importing countries was estimated at 84.3 million bags during the year 2003/04 compared to 85.2 million bags the previous year. However, per capita consumption had fallen down in many countries. A study of correlation between consumption in importing countries and prices could not give an appropriate answer to the question of simultaneous decline in per capita consumption and fall in prices.

### **ICO'S FINANCIAL POSITION**

#### **Revenue**

20. The management accounts for seven months that preceded 30<sup>th</sup> April, 2005 showed contributions of US\$4,566,425.40. The figure was higher than the actual budget because of the accession of the United States of America. Excluding contributions, other incomes for the seven months were US\$458,191.80. This was against a budget of US\$313,948.80. The revenue came primarily from the rental of Organization's conference facilities. The facilities are mostly used during autumn and winter. There will be little use of the facilities in May until the end of the year. However, the actual income will exceed the relatively conservative budget for the remainder of the year.

#### **Expenditure**

21. The total expenditure for the seven months proceeding 30<sup>th</sup> April, 2005 was US\$2,995,977.60 which represented a positive variance of US\$97,322.40. The most significant variances were:-
  - (i) Personnel recorded a positive variance of US\$31,278.50. This was due to savings in post

adjustments, which were in turn a function of exchange rates and the fact that fewer temporary staff had been employed than anticipated.

- (ii) Language services recorded a positive variance of US\$66,920.40. This was because one meeting had been held in the first seven months. Translation and interpretation services were also used less. Two meetings were to be held in the next five months and the variance was likely to reverse.
- (iii) Special contracts recorded a positive variance of US\$32,040.00. This was as result of less activity on projects and reduction in the coffee price service fees.
- (iv) Travelling recorded a negative variance of US\$8,789.40. This was because of a busier travel schedule of the ICO staff in the first part of the year. However, this would be reversed in the last five months of the financial year.
- (v) Rent on premises recorded a negative variance of US\$46,683.00. This was entirely due to the timing of the lease payments. The budget assumed that a new lease would be signed on the premises at 22 Barners Street as from 1<sup>st</sup> April, 2005.
- (vi) Other operating costs recorded a positive variance of US\$9,514.80. This was as a result of strict control in several areas; the significant ones were documents production, general supplies and publications. As at 13<sup>th</sup> May, 2005 the Organization had US\$4,179,600.00 cash at bank. Outstanding payments for the year were 1,085'956.20 out of the total US\$4,566,425.40 due.

## **COFFEE DEVELOPMENT PROJECTS**

22. As at 10<sup>th</sup> May, 2005, several projects had been concluded while others were ongoing. Other projects had been approved for development. The Coffee Development Fund (CFC) would provide US\$36 million towards undertaking of the approved projects. Multilateral donor institutions would provide additional funding.

### **I. CONCLUDED PROJECTS**

#### **(i) Integrated pest management of the coffee berry borer**

The project was carried out in Colombia, Ecuador, Guatemala, Honduras, India, Jamaica and Mexico.

The coffee berry borer was regarded as the most dangerous coffee pest. It had cost the world coffee sector heavy losses.

The project would promote sustainable development by introducing an effective integrated pest management system and reducing the use of chemicals in pest control. It would also enhance productivity and competitiveness through production of high quality coffee and reduction of production losses.

#### **(ii) Study on coffee marketing systems and trading policies**

The project had been carried out in Angola, Cameroon, Democratic Republic of Congo, Ethiopia, Ghana, Guatemala, India, Madagascar and Togo.



The project evaluated coffee marketing systems and policies and identified factors important for effective marketing, helping to guide developing countries in improving marketing of their coffee and generating benefits such as employment and greater income.

(iii) **Development of washed processing within a framework of private investment**

The project was carried out in Rwanda.

The project would improve Rwandan coffee production by analyzing the main problems associated with quality and identifying action to be taken. This would restore quality and competitiveness of Rwandan coffee.

(iv) **Study of the potential of commodity exchange and other forms of market places in COMESA countries.**

The project was carried out in Ethiopia, Kenya, Uganda, Tanzania, Rwanda, Burundi, Malawi, Zambia and Zimbabwe.

The study would make it possible for COMESA countries to adopt modern techniques of trading locally, regionally and internationally to optimize economic benefits to farmers and countries.

(v) **Development of gourmet coffee potential**

The project was undertaken in Brazil, Burundi, Ethiopia, Papua New Guinea and Uganda.

The project demonstrated the return on investment potential of the gourmet approach, identified new gourmet coffees and assisted countries in marketing them.

## II. ONGOING PROJECTS

### (i) Enhancement of coffee quality through prevention of mould formation

This was a worldwide project. Positive mid term evaluations took place in March 2003 and an annual project review meeting took place in December, 2004.

A lot of coffee had gone to waste as a result of mould formation, occasioning producers heavy losses. The project would establish and disseminate guidelines for coffee production, harvesting, processing, storage and transport to avoid conditions for the formation of mould.

### (ii) Improvement of coffee production by control of diseases

The project targeted Africa and was intended to control the coffee wilt disease - tracheomycosis. The project was being carried out in Cameroon, Cote d' Ivoire, Democratic Republic of Congo, Ethiopia, Ruanda, Tanzania and Uganda. The project was to be completed this year but extended for another year.

The objective of the project was to implement a regional programme to improve management practices to contain the disease and develop

an information and training programme for small producers.

(iii) **Strengthening the business capacity of small scale farmers**

The project was being undertaken in Mexico and Nicaragua. The project was to be completed in December, 2004 but extended to June, 2005.

The project was intended to help small scale coffee growers to compete in the market and become credit worthy, generating benefits such as employment and enhanced income.

(iv) **Short and medium term finance for small scale coffee farmers in Kenya**

This was a pilot project. Other countries would benefit from results. The project would be implemented in three phases. Phases I and II had been completed and preliminaries for the implementation of phase III were underway. Phase III would involve loan provision.

The project would promote access to credit by smallholder coffee farmers.

### **III. APPROVED PROJECTS**

1. **Coffee market development and trade promotion in Eastern and Southern Africa**

The project would be undertaken in Kenya, Uganda and Tanzania.

The project would develop and test coffee marketing systems that would respond to

producer and trade requirements, strengthen public and private institutions to operate the systems and promote improved access to the international market. It would also introduce measures to minimize exposure to technical and price risks.

**(ii) Integrated white stem borer management in small holder coffee farms**

The project would be undertaken in Malawi, India and Zimbabwe.

This was a pilot project intended to expand research and develop an integrated pest management measures for combating the white stem borer and reduce the use of chemical pesticides. A report on mid term evaluation would be circulated to the council in September, 2005.

**(iii) Coffee price risk management in Eastern and Southern Africa**

The project would be carried out in Ethiopia, Kenya, Uganda, Tanzania and Zimbabwe.

The project would provide a suitable and sustainable price risk management scheme to reduce the exposure of coffee farmers to fluctuations in the world market prices and secure better incomes from coffee growing.

The Commodity Risk Management Group (CRMG) of the World Bank had been appointed as the Project Executing Agent. The duration of the project would be three years and the total cost would be US\$2,529,142.

(iv) **Improving coffee quality in East and Central Africa through improved processing practices**

The project would be carried out in Rwanda and Ethiopia and would take three (3) years.

The project would be geared at improving production of quality coffee, to enable it command premium prices through improved methods of primary processing by farmer groups at village level.

(v) **Sustainable Coffee development in Eastern Africa**

The project would be carried out in Kenya, Uganda and Tanzania.

The project was aimed at supporting sustainable coffee development in Eastern Africa by addressing issues related to coffee certification.

Consultants had been appointed to conduct a study on setting up a fine coffee certification programme in Eastern Africa. The consultants' report had been discussed in Zambia in March, 2005 and the final report was being awaited.

(vi) **Worldwide comparative analysis of coffee growing areas**

The project would be carried out in Ethiopia, Tanzania, Kenya, Uganda, India, Indonesia, Guatemala, Nicaragua, Colombia and Ecuador.



The study would analyze factors and conditions necessary for improving competitiveness and diversification in coffee dependent areas.

**(vii) Rehabilitation of coffee sectors in Honduras and Nicaragua**

The project was intended to rebuild the coffee sectors in the two countries following destruction of the crop by a hurricane mitch. The project would involve replacing destroyed machinery and creation of cleaner environment.

Project implementation would start once the relevant authorities in the countries conclude the project implementation agreement.

**(viii) Rehabilitation of neglected coffee plantations into small family production units in Angola**

Through the project, neglected state coffee plantations would be rehabilitated into small production units and displaced families settled. The project would be launched before the end of the year.

**(ix) Robusta quality and marketing improvement**

The project's objective was to improve the quality of robusta coffee cultivation and its profitability by identifying varieties which were superior in quality and making optimal use of coffee soils.

The project and grant agreements were signed in December, 2003. The project would be launched in June, 2005.

(x) **Diversification of production in marginal coffee plantations in state of Vera Cruz in Mexico**

The project would provide alternative production and development options to coffee growers in marginal areas suffering from the crisis caused by low prices thereby developing a viable diversification model for mild arabica coffee producers.

**COFFEE SUSTAINABILITY**

23. Prompted by the globalization and market deregulation processes which had been ongoing since the late 1980's, the aim of sustainability of the coffee economy had become increasingly important.

In response to this initiative, the ICO undertook a series of studies that would facilitate a better understanding of the relationship between coffee supply chain and the environment, and of the multilateral arrangements that affect the coffee trade and the quality of the product. At the same time, the Organization was in the process of redefining its role as a body well placed to provide guidance and support various coffee initiatives that had been in gestation in relation to the theme of sustainability.

There were two areas in which the Organization was actively involved during the past year. These were:-



## **I. Common Code for the Coffee Community**

The Organization had participated as an extraordinary member in the process of drawing up a Common Code for the Coffee community on the initiative of the German Coffee Association and the Federal Ministry for Economic Co-operation and Development, Germany (GTZ). The aim of this was to draw up and implement a code of conduct to promote the long term sustainability of the coffee industry and to establish rules to be observed by all involved in the production chain.

Coffee producing countries were however opposed to the code on account of:-

- (i) The Code was unjustly biased against the interests of producers because the principles enshrined in the Code were not applying equally to consuming and producing countries;
- (ii) There was lack of transparency in the Development of the Code because all interested parties were not accorded an opportunity to participate;
- (iii) The certification requirements would be a financial burden to producers;
- (iv) The Code would have disastrous consequences on the long term survival of small producers.

The session resolved to review the code for the purposes of incorporating the wishes of producers.

## **II. Establishment of the Coffee Sustainability Committee**

The Organization was evaluating the Institute for Sustainable Development's (ISD) proposal to establish a Sustainability Committee to act in advisory and consultative capacity for ICO and as a rapporteur in all matters within its area of interest.

The Organization was fully committed to ensuring that the concept of sustainability would not include not only aspects concerned with environmental and worker protection criteria but also all aspects of economic viability which make it possible to effectively reduce high poverty rates suffered by many coffee producing countries.

### **INCREASING COFFEE CONSUMPTION**

24. Increasing consumption of coffee had a key role to play in addressing imbalance between supply and demand. One of the areas identified by the ICO Action plan on promotion was enhancing consumption in producing countries and emerging consuming countries. The emerging consuming countries targeted were China and Russia and promotion results were positive.

### **HEALTH CARE PROFESSIONALS' COFFEE EDUCATION PROGRAMME**

25. Given the key role of health care professionals (general practitioners, dieticians etc) as a source of dietary information for consumers, it was important that they be made aware of the latest scientific research regarding the effects of coffee consumption on health.
26. In this regard, the ICO started the Health Care Professions Coffee Education Programme (HCEP-CEP) to work in tandem with the national coffee

