REPUBLIC OF KENYA

NATIONAL ASSEMBLY

REPORT

OF THE

DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS AND NATURAL RESOURCES

ON

VISITS TO UNITED KINGDOM, COLOMBIA, COSTA RICA, USA, GERMANY, NETHERLANDS AND BELGIUM

MARCH, 2001

Clerk's Chambers
Parliament Buildings
NAIROBI

VISIT TO VARIOUS COUNTRIES BY THE MEMBERS OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS AND NATURAL RESOURCES - UNITED KINGDOM, COLOMBIA, COSTA RICA, USA, GERMANY, NETHERLANDS AND BELGIUM

Introduction

For many years, coffee was the "black gold" that brightened prospects for the Kenyan economy. Export earnings from the crop brought smiles to producers, marketing bodies, input suppliers and the nation as a whole.

Then something went wrong, and the sector has been on decline for the last decade. This has been the case despite the sector's huge potential and the farmers extra-ordinary efforts to produce the crop even in the face of frustrations.

Introduced into the country by Christian missionaries in 1893 at Kibwezi and Bura, coffee only gained prominence soon after Kenya became independent. The crop developed at a fast rate to become the major foreign exchange earner.

From 43,778 tonnes in 1963/64, the crop enjoyed phenomenal growth, with production doubling within a decade. In 1976/77 production stood at 97,345 tonnes before reaching an all-time high of 128,941 tonnes in 1983/84.

This phenomenal growth was checked in subsequent years and by 1993/94, production had dropped to 73,400 tonnes. By 1997/98, production declined to 47.000 tonnes - almost the 1963 level - and is projected to drop further.

The major constraints hindering the smooth development of the industry include:

- Lack of strong linkage between production and marketing agencies
- Lack of credit or inadequate credit facilities
- Untimely provision of inputs or lack of such inputs altogether
- Uneconomic yield levels
- Inefficient or inappropriate marketing system

- Prices below cost of production

- Excessive deductions through unnecessary long marketing chains

- Delay in coffee payments

- Inefficient management of farmers' money

The decline in the coffee industry calls for urgent measures to reverse the trend hence the committee's visit to the countries mentioned below.

The Committee comprised of:

1. Hon. Mohamed Abdi Galgallo, MP - Leader of Delegation
2. Hon. Peter N. Ndwiga, MP
3. Hon. David Murathe, MP
4. Hon. Anthony W. Ndilinge, MP

The following officers accompanied the Committee through out the visits:

Mr. Simeon Onchare - Deputy Manager, Coffee Board of Kenya and former Coffee Board of Kenya Representative in London

Mr. David Mbugua - Coffee Board of Kenya representative in London

Mr. James N. Mwangi - Secretary to the Committee

THE INTERNATIONAL COFFEE ORGANIZATION

Historical Background

Coffee became an important commodity in international trade during the 19th century. Since then it has suffered from long periods of over supply and low prices followed by relatively brief periods of short supply and high prices. Due to the dramatic fluctuation of coffee prices there was need for an inter-governmental initiative to stabilize the market and halt the fall in prices and hence the establishment of the International Coffee Organisation in 1963.

The first International Coffee Agreement came into force in 1962 for a period of five years and it has continued to operate under successive agreements negotiated since then. These include the International Coffee Agreement 1976, the 1983 Agreement, the 1994 Agreement and lately the 2001 Agreement.

Objectives of the Organisation

The ICO's objective is to promote a sustainable global coffee economy through international co-operation on coffee matters. It makes a practical contribution to the world coffee economy through:

- Providing a forum for high level intergovernmental consultations on coffee matters.
- Publishing coffee statistics, studies and surveys.
- Enhancing socio-economic development through increasing growers' competitiveness.
- Improving coffee quality and production through projects.
- Increasing consumption by promoting coffee.
- Encouraging the development of a sustainable coffee economy which can contribute to poverty reduction.
- Providing economic and technical information on coffee.

<u>Brief on the Agreements</u>

<u>1962 and 1968</u>

The 1962 and the 1968 Agreements contained provision for the application of a quota system whereby coffee supplies in excess of consumer requirements were withheld from the market. Under other provisions, production and diversification policies were initiated to limit supplies of coffee and promotion activities instituted to increase consumption.

The operation of these agreements helped prices to remain relatively stable throughout the years 1963 to 1972 and production and consumption became more evenly balanced. These agreements contributed significantly to strengthening the economies of the coffee producing countries and the development of international trade and co-operation.

The quota system however collapsed in 1973 due to changes in pattern of supply and demand, which resulted in increase in prices.

The 1976 Agreement - allowed for the suspention of quota system if prices were high and its introduction if prices became too low. Under this system quotas were introduced in 1980.

The 1983 Agreement - quotas and controls remained in effect for most of the subsequent years under this Agreement. However, the quota system was suspended in 1989, the activities of the Promotion Fund was also wound up. Following the suspension of the quota system prices immediately dropped tremendously.

The 1994 Agreement - the Agreement did not set out to regulate coffee prices but instead focused on other forms of international co-operation.

<u>The 2001 Agreement</u>

The text of the new six-year Agreement was agreed in September, 2000 and is expected to enter into force on 1st October, 2001. It includes the following objectives:

- encouraging members to develop a sustainable coffee economy.
- promoting coffee consumption.
- promoting quality

- providing a forum for the private sector.

- promoting training and information programmes designed to assist the transfer of technology relevant to member countries.

- analysing and advising on the preparation of projects to the benefit of the world coffee economy.

The ICO has been encouraging the consumption of coffee in large markets such as China and Russia since coffee is in competition with other drinks such as tea and soft drinks

The organisation also provides credit facilities to coffee farmers in African and Caribbean countries. It is the International Commodity Body (ICB) for coffee.

COLOMBIA

About one million people work permanently in coffee farms in Colombia. Most coffee farms are between 5 and 10 hectares with very few large plantations. The average production is 1250 kg per hectare per year.

The Federation of Co-operatives of Colombia (FNC)

The Federation is the regulatory body which is solely mandated to deal with coffee matters. The Federation is run strictly as a quasi private, autonomous organisation with Government representation. Since 1937 the Federation has only had three (3) general managers. It is mandatory for the Federation to buy farmers' coffee at the support price. The Federation cannot refuse to buy. It also operates as a buyer of last resort by buying excess coffee not bought by exporters at the set reserve price.

One of the functions of the Federation is to ensure that coffee farmers sell their produce. The Federation therefore buys the best coffee from farmers for export purposes. The Federation also supervise private exporters whose number is between 35-38 in order to ensure that they export quality coffee. The Federation handles 30% of Colombia coffee, 70% is bought by the private sector, 1.5million of the 10 million produced is consumed locally.

Most of the coffee from Colombia is exported to Germany, Scandinavia and other European countries.

The National Coffee Fund

This Fund is administered by the National Coffee Board. It was established in order to help stabilize the coffee prices internally. This task has however proved difficult due to the falling price of coffee in the world market. The internal coffee prices follow closely those in the international market hence when prices of coffee went up in 1977 the Fund also increased the prices internally.

The Fund is financed through the coffee tax - each farmer is taxed 20 cents per pound received from coffee sales. The money is used for the benefit of the farmers such as tarmacking of roads, bridges, schools, hospitals etc. none of the money collected goes to the government. There are 15 regional offices in charge of investments such as those quoted above.

How Coffee prices can be improved

From discussions held with the Members of the National Coffee Board the pries of coffee can be improved by:

- Retention scheme - 20% of all coffee exported can be retained so that the market is not flooded.
- Brazil has retained over 2 million bags
- Colombia has retained more than one million bags
- About 4.5 million bags have been retained in the world

In order to improve the prices the retained coffee should be destroyed. In Colombia the National Coffee Federation pays for the coffee retained.

(ii) Promotion of consumption of coffee

Coffee growing countries through the International Coffee Organisation should promote consumption of coffee in large markets such as China, Russia, Nigeria etc. so that a ready and reliable market for the produce can be found. Countries should be prepared to spend one or two dollars per bag for promotion.

The prices of coffee will continue falling if measures are not taken. Vietnam which produces low quality coffee has now 400,000 hectares of coffee. The main consumers of coffee, that is, Germany and United States are now not going for quality coffee since they are not prepared to spend a lot on coffee.

Visit to the Senicafe (Pereira, Colombia)

The Committee visited the Senicafe which is an equivalent of the Ruiru based Coffee Research Foundation.

The Senicafe was founded in 1938 as a Research Centre and it has 80 researchers. The Centre ensures that the quality of Colombian coffee is maintained. The Centre has also developed an intergrated pest management. The Senicafe is financed through the National Coffee Fund (it gets 0.5% in a pound).

The National Federation of Coffee Growers meets the cost of training the researchers in local universities and abroad. During the visit the Committee was informed that there are 4 varieties of coffee in Colombia, namely:

- Caturra
- Tipica
- Bonbon
- Colombia

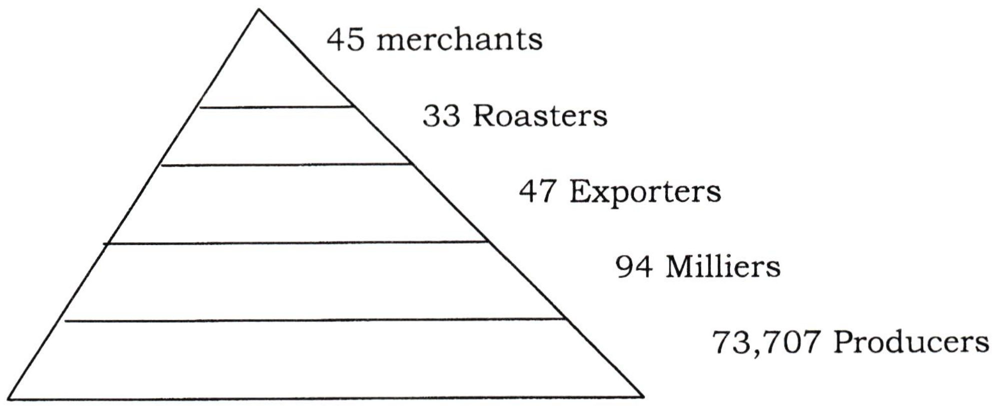
The first three varieties account for 55% of the coffee grown in Colombia while the last one (Colombia) accounts for 45%. The Senicafe prepares a monthly bulleting on coffee matters and also a quarterly scientific journal. All the research findings are documented.

Though the management did not disclose the Research budget, the Committee estimated the budget to be not less than 100 million dollars.

COSTARICA

More than 70% of the Costarican coffee comes from the high mountains whose altitude ranges from 1000 to 1700 meters above sea level. Over 50,000 of the countries 3 million people are involved in coffee production in the more than 100,000 hectares of coffee, one can compare this with Vietnam which has 400,000 hectares and is in the process of adding another 200,000 hectares and Kenya which has 160,000 hectares.

The structure of the coffee industry in Costarica is as illustrated below



Costarica, which has the highest production per hectare (about 1500 kg per hectare) produces only Arabica coffee. 80% of the 73,707 produceers have less than 5 hectares while 10% have over 100 hectares.

An average farmer takes home about 50 US dollars per 43kg. Fanega (bag).

Coffee Mills

There are approximately 95 coffee mills which are distributed through out the territory for processing the crop ever year. The work of the mill begins with the reception of the cherry and the separation of the pulp from the bean. Next the mucilaginous covering is broken down and removed. It is then washed and dried, partially or entirely, under the tropical sun while strict control of its temperature and humidity are maintained during the drying process. Finally it is classified and stored.

The system of management of coffee pulp and wastewater avoids the contamination of rivers and aquifers. The residual waters are treated so that when they return to the rivers they could be reabsorbed by the ecosystem.

The Costarican Coffee Institute (ICAFE)

The Costarican Coffee Institute was officially constituted in 1933 as the Coffee Defence Institute. In 1985, the name was changed to the Costarican Coffee Institute. As the ruling entity of the Costa Rican Coffee Activity, its responsibilities include:

- Supervising the relationships among the different components of the industry

- Supplying coffee growers and millers with technical and scientific assistance

- Promoting Costarican coffee

- Extensive research

- Setting the minimum prices of coffee

The Government is represented by two representatives in ICAFE.

ICAFE is financed by the coffee farmers. 1.5% of money received from coffee exports goes towards financing the Institute.

In order to ensure high quality of coffee, all coffee seeds are purchased from ICAFE and only Arabica coffee is produced.

UNITED STATES - (LOS ANGELES & LONG BEACH)

The Specialty Coffee Association of America (SCAA)

The Specialty Coffee Association of America (SCAA) was founded in 1982 and is the world's largest non-profit trade association representing the coffee industry. It has more than 2,500 members from the United States and nations throughout the world. The SCAA's mission is to foster coffee excellence and consumption through education and information exchange. This mission is undertaken both for and with the help of the association membership, including growers, roasters, importers, exporters and retailers, as well as food service professionals and representatives of allied industries.

With the full participation and leadership of a volunteer board of directors, the SCAA has established key objectives to guide its own operations and to help its member's transition successfully and conscientiously into the millennium. These objectives include:

- Commitment to quality at all levels

- Spirit of support and co-operation

- Dedication to continuing education

- Awareness and concern about social and environmental issues

- Pursuit of sound business practices and ethics

The Association offers seminars, workshops and training laboratories on monthly basis throughout the United States the International Relations Committee sponsors annual site visits and training trips to coffee producing nations. Through its resources center, the Association makes available promotional items, marketing support materials, books and other tools to assist the coffee trade.

The annual SCAA conference brings together more than 6,000 attendants and 400 exhibitors in the coffee related industries to meet, share ideas and information and learn about trends and forecast in the coffee world.

The Association through its educational foundation, the Specialty Coffee Institute (SCI) working in co-operation with other NGOs proposes that the United States Agency for International Development (USAID) undertake a global coffee program, partnered with key individual USAID missions designated to create marketing systems through which value added coffees receive faovourable export prices.

By increasing the value and volume of Specialty Coffee exports from key coffee producing countries, this programme will provide the permanent structural changes required to develop the export earnings needed to bring prosperity and economic development in strategic rural areas worldwide.

The Association is committed to E-commerce and greater transparency in the coffee market. It advocates for a free market in the coffee industry.

On the coffee auction in Kenya, the Association advises that more bidders should join the auction and it should be made easily accessible to the bidders.

The Association had a lot of praise on the Ruiru Research Station and suggested that coffee-producing countries should lobby for support of research facilities from the World Bank.

African Division of USAID

Six countries are involved in the above USAID programme in Africa:

Rwanda
Burundi

Ethiopia
Kenya
Uganda
Tanzania

The programme is financed directly by USAID and aims at improving the production and marketing of coffee within the countries.

Specialty Coffee Institute Shops

Diedrich Coffee

Dledrich Coffee, America's second largest specialty coffee company, is a leading purveyor and custom rooster of the world's fine coffees with 382 outlets in 38 states and six foreign countries.

Dledrich company buys about 5% to 10% of their coffee from Kenya. They give a price indication, which is based on top quality. The company indicated that it was prepared to pay 2.5 to 3.5 US dollars per pound (about 7 dollars per kg) for Kenyan coffee if the quality is improved. The company would then retail the coffee at US$12 per pound.

From discussions held with the management of the company the following comments were noted:

- The quality of Kenyan coffee has of late deteriorated hence the low prices.

- The auction system in Kenya should be supported. There is a lot of transparency in the auction.

- Praise for coffee Research Foundation in Ruiru

- The coffee farmer should be supported with every intention and resources. The farmer should be paid in time and accorded due respect.

- The Coffee Board of Kenya does not operate efficiently. The Board should be restructured.

- The co-operative societies in Kenya are no longer effective as they once were and this has affected the quality of coffee.

- Communication information technology should be used in promotion of Kenyan coffee.

- Free trade on a local level should be encouraged.

- Kenya should take care not to go the Tanzania way whose coffee industry has nearly collapsed due to mismanagement and poor quality.

- S.L 28 variety should be encouraged, the Ruiru II though easier and cheaper to produce is not popular.

- Big transnational exporters of coffee have been exploiting coffee farmers.

Diedrich company indicated that they would be more than willing to buy coffee through the e-commerce and the Committee was assured by the CBK representative that this option would be introduced within the next 18 months.

GERMANY

Germany is a very important market for Kenyan coffee. The volume of coffee consumption is more than 10 million bags and for ever 10 bags produced in Kenya, 4 end up in Germany.

The Committee visited the Eigen Atte company in Hamburg, Germany. These are agents representing coffee exporters from different countries. They are importers of coffee. The company gets offers from exporters and sell coffee to Roasters who blend the coffee.

The company trades in 1.5 million bags of coffee in a year out of these 150,000 bags come from Kenya.

How do Roasters decide what coffee to buy?

The company gets samples from exporters and there are given to roasters who decide which coffee to buy.

How is Kenyan coffee marketed in Germany?

The Committee noted with deep concern that Kenyan coffee is used to blend other coffees and the resultant is marketed as, for instance, "Brazil Mild Coffee" thus promoting other countries.

The reason given for this was that the Kenyan coffee has a lot of acid and therefore indigestive.

The trend in Germany has been that of consumption of cheaper or lower quality coffee. Coffee from Vietnam has gained market due to its cheap price compared to Kenyan coffee.

NETHERLANDS

The committeee visited the flower auction and the fish auction in the Netherlands. The purpose was to witness how auctions are carried out. The following system impressed the committee:

Remote Buying

This system enables buyers to take full part in the bidding process without having to be physically present. The buyer's personal computer (PC) is connected to the auction by means of a fast ISDN telephone line. On this PC a copy of the auction clock together with all relevant product information and, where appropriate, an image of the product is displayed. By pressing the spare bar, the buyer stops both the on-screen clock and the actual auction clock. If the buyer thereby makes a purchase, the system opens a voice line on the same ISDN connection and the buyer can then specify the desired number of lots.

Remote buyers can link up with the auction room of their choice via a telephone line. Within each auction room they can select any of the available clocks. They can behave as if they were actually present at the buyers' gallery.

The Common Fund for Commodities (CFC)

The Common Fund for Commodities is an intergovernmental financial institution. The agreement establishing the CFC was negotiated in the United Nations Conference on Trade and Development (UNCTAD) in Nairobi in 1974, concluded in 1980 and came into force in 1989. Currently, the Fund has 104 member countries plus the European Community, the organizations of African Unity/African Economic Community (OAU/AEC) and the COMESA. The first commodity development project was approved in 1991.

Commodity Focus

The Common Fund operates under the novel approach of commodity focus instead of the traditional country focus. Commodity focus means to

concentrate on the more general problems of particular commodities. In this way many countries benefit from the projects financed by the common fund. The rationale behind the fund's projects is to enhance the socio-economic development of commodity producers and contribute to the development of the society as a whole.

The five-year Action Plan 1998-2002 of the Common Fund directs the activities of the Fund to commodities of interest to least developed countries and commodities with development potential. Projects will focus mainly on the poorer strata of the population, on small holder as well as small and medium sized enterprises involved in commodity production, processing and trade in developing countries and countries in transition.

Most of the commodities covered by these projects such as bananas, cocoa, coffee, groundnuts, jute, palm oil, rice, natural rubber, sisal, cane sugar and tea are produced almost entirely in developing countries. Many of the world's poorest people depend on one or more of these commodities for their livelihood. Many least developed countries derive most of their export earnings from them. CFC funded projects are thus intended to make a sustainable difference to the word's poorest people.

Financial Resources

The resources of the Common Fund are derived from subscription of shares of directly contributed capital paid in by member countries in accordance with the Agreement establishing the Fund.

Kenya is involved in the following projects at the CFC:

1. Product and marketing development of sisal and hennequen

2. Grading hides and skins

3. Prevention of coffee mould

4. African Fruit Fly Initiative

5. Value Added Fishery East Africa

6. Diversification of Cassava (Workshop) 1998

7. Bagasse Utilization for Electricity (Study 2000)

8. Sisal Seminar (December 2000)

9. Input Finance Small Farmers (Workshop) 4-6 April, 2000.

10. Cashew Development (Workshop) to be conduced in 2001

11. Micro-finance for commodities (Workshop) date to be determined

The workshop mentioned in (9) above took place recently in Nairobi and the Departmental Committee on Agriculture, Lands and Natural Resources was represented by 5 members.

BELGIUM (BRUSSELS)

The Committee visited the offices of the European Commission to find out about Stabex Funds.

The Committee was accompanied by Mr. Nkuraru, His Excellency the Ambassador of Kenya to the Brussels and Mr. Karugu, First Secretary. The Committee was met by Mr. Joaquim M. Salgueiro, Administrator Principal, European Commission.

From the discussions held the following comments were noted:

- Stabex has been discontinued and the National Indicative Programme was introduced in its place.

- In the new mechanism the Government has to organize itself and define priorities. The priorities should then be incorporated in a comprehensive framework.

- The projects to be indicated in the National Indicative Programme must be national and affecting the stability of the economy or sector.

- The European Union has some conditionalities which have to be met before disbursement of funds. These conditions are similar to those by IMF and World Bank such as good governance, political stability, transparency etc.

- Although Stabex funds had been discontinued, any amounts already disbursed will not be withdrawn. The Government of Kenya should decide how to spend the money and the European Union will supervise the amounts being spent.

- The money already disbursed is held in a joint account between European Union and the Government of Kenya.

- European Union is monitoring the events in Kenya such as the declaration of the Kenya Anti-Corruption Authority as unconstitutional and the Kenya Roads Board Act. These are seen as political decisions and not judicial ones.

The Cotonou Agreement

The Cotonou Agreement was signed in June, 2000 and it replaces the Lome (IV) Convention. With a view to improving efficiency , the Agreement makes provision for only two financial instruments under the European Development Fund (EDF). These are:

(i) An instrument for granting subsidies for long-term development support; and

(ii) An investment facility to promote private sector in the ACP countries, aimed at replacing the current financing mechanism of risk capital and interest subsidies.

The allocation of resources to the ACP countries will henceforth be based not only on their needs, but also on their performance levels.

The five pillars of the new Agreement are:

- Reinforcement of the political dimension of relation between ACP countries and the European Union.

- Involvement of civil society, the private sector and other non-state players.

- Poverty reduction, confirmed as a key objective within the context of the objectives and strategies agreed at international level.

- An innovative economic and trade co-operation framework.

- Rationalization of financial instruments and a new system of "rolling programming".

Important matters such as peace building and conflict prevention polices and migration, have been expressly introduced into the new Agreement. Respect for human rights, democratic principles and the rule of law and good governance will be subjects for regular dialogue between regional and sub-regional organizations and representatives of civil society.

Maintenance of Roads

The European Union is willing to invest heavily in the roads sector provided that the Government will give an assurance of maintaining the roads.

The Union however expressed concern that the Kenya Roads Board Act had been declared unconstitutional. This was seen as a political decision and not a judicial one.

Meeting with Hon. Madam Kinnock

The Committee had a meeting with Hon. Madam Kinnock, Deputy Vice President of the European Union and also a Member of the Committee on Development. During the discussions, the following comments were noted:

- The Kenyan Government should indicate its priorities as indicated in the Cotonou Agreement.

- It was unanimously agreed that the coffee sector in Kenya should be financially supported.

Commenting on the Committee on Development Madam Kinnock said that the Committee had been helping in alleviating poverty and assisting in rural development in the developing countries.

As regards "Everything But Arms" (EBA), Madam Kinnock explained that 48 countries were classified as Least Developed Countries by the United Nations and Kenya was not among the 48 and could therefore not benefit

On Stabex funds, Madam Kinnock could not understand why the Kenya Government had not utilized the total amounts disbursed for promotion of coffee and tea s intended for. She promised to raise a question in the European Parliament on the issue.

She lamented that if the coffee industry in Kenya were to collapse, everything else would collapse too, crime would increase due to poverty and tourism would be adversely affected.

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MINUTES OF THE HUNDRED AND FORTY-FIFTH (145TH) SITTING OF THE DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS AND NATURAL RESOURCES HELD IN THE MAIN CONFERENCE, COUNTY HALL, PARLIAMENT BUILDINGS ON THURSDAY, MAY 17, 2001 AT 10.00 A.M.

PRESENT: The following Members were present:

Hon. John Sambu, MP - Chairman
Dr. the Hon. Odongo Omamo, MP
Hon. Daniel Khamasi, MP
Hon. Peter N. Ndwiga, M.P.
Hon. Anthony W. Ndilinge, MP
Hon. David W. Murathe, M.P

ABSENT WITH APOLOGY:

Hon. Mohammed A. Galgallo, MP
Hon. Joseph Munyao, MP
Hon. Ali I. Shaaban, MP
Hon. Mohammed D. Weyrah, M.P.
Hon. Molu G. Shambaro, MP

IN ATTENDANCE - NATIONAL ASSEMBLY

Mr. J.N. Mwangi - Ag. Principal Clerk Assistant

MIN.676/01: DELIBERATIONS ON THE REPORT ON THE COFFEE VISIT

The Committee deliberated on the report tabled by the delegation whch visited several coffee growing countries Hon. David Murathe took the Members of the Committee through the Report.

The report covered the following areas:

- The International Coffee Organisation
- The Federation of Co-operatives of Colombia
- The Constarican Coffee Institute (ICAFE)
- The Specialty Coffee Association of America (SCAA)
- The Specialty Coffee Institute Shops
- The Elgen Atte Company in Hamburg, Germany
- The flower and fish auctions in Netherlands
- The Common Fund for Commodities (CFC).
- Disbursement of Stabex Funds
- The Cotonou Agreement
- Meeting with Hon. Madam Kinnock

The Committee adopted the Report.

MIN.677/01: ADJOURNMENT

And the time being twenty minutes past One O'clock, the Chairman adjourned the sitting until Tuesday, 22nd May, 2001 at 10.00 a.m.

Confirmed: Signed. ....
(Chairman)

Date: ....