

Colombia's coffee diplomacy

INTERVIEW WITH ROBERTO VÉLEZ

CEO, NATIONAL COFFEE GROWERS FEDERATION (FNC), COLOMBIA



ROBERTO VÉLEZ graduated with a degree in Economics from Colombia's Universidad del Rosario, undertaking postgraduate studies at the University of Brighton in England and New York University in the US. Prior to his election as CEO of the FNC, he was Colombia's Ambassador to Japan, and before that the United Arab Emirates and Malaysia. He has worked at the FNC for 20 years, serving as Director for Asia and Chief Commercial Officer, among other positions.

What is your assessment of the current state of the coffee industry, both in Colombia and worldwide?

From the Colombian side, we're just coming back from a slump in production in 2010 and 2011. Our annual production was previously around 12 million bags but fell to 8 million in those years due to climatic problems and an ageing population of coffee trees. With the help of the government, the FNC put together a plan to replant a good part of the Colombian coffee area, which has been very successful. Last year our production was over 14 million bags and this year we expect something similar. On the volume side, Colombia is rebounding and showing the markets that we remain a strong player in the coffee world.

In this regard, the devaluation of the currency has been a great help; remember that Colombia became an oil exporting country in the past decade and when oil prices rose to over US\$100 per barrel, the local currency revalued strongly from around 3,000 pesos to the dollar to a level of under 2,000. That hit the rest of the export-oriented industry, so coffee growers in Colombia were subjected to both low production in volume terms and a severely depressed internal price due to the exchange rate. This situation has now reversed: once



The cherry on the cake: Colombia has become the supplier of choice to the speciality coffee sector

the oil price came down to under US\$50 per barrel, the local currency devalued again and today it is back around 3,000 pesos to the dollar, making coffee farming a profitable activity again, which it hasn't been for the past 10 years. So, currently we are going through a good business phase for coffee growers – not an excellent one, but a normal, profitable business.

Worldwide, over the past 20 years we have seen continuous growth in the coffee market, with demand growing between 1.5 per cent and 2 per cent. That means that in 10 years' time the coffee world will need to add a country the size of Vietnam, producing around 30 million bags. I think there is a consensus worldwide that, looking to the future, we could see demand surpass our capability to produce the amount of coffee the world needs, so we need to revitalise coffee production: by making it a profitable business again, something it hasn't been for the last 20 to 30 years.

How important is coffee cultivation, processing and associated industries to 'the new Colombia'?

Coffee remains a very important sector for the Colombian economy. We are responsible for around 25 per cent of employment in the rural areas and our exports account for around 8 to 10 per cent of Colombian foreign exchange earnings, so for the economy itself, coffee is vital.

But the most important attribute of coffee cultivation is the social aspect. Coffee in Colombia is produced by 560,000 families that altogether account for more than 2 million people directly, and indirectly around 3 to 5 million people. And as coffee is a product that is produced mainly by small coffee growers, the capability of coffee earnings to revitalise remote areas of the country is very important.

What do you see as the main challenges to the health and growth of the industry?

We have a problem with climate change, worldwide. In Colombia alone this year we estimate that the El Niño phenomenon cost us around 5 to 8 per cent of our production.

Employment is one of the other main problems; one of the greatest threats to Colombian coffee production is rising labour costs. Colombian coffee is very labour-intensive – we handpick our coffee, unlike Brazil, for example, where they use machines. The labour cost

therefore becomes a key component of the business itself. The economy of Colombia has grown at around 3 per cent per annum over the last 30 years, so the countryside is competing with the urban centres for labour, so it's hard to get the necessary workers to pick our coffee. This year we estimated a shortage of around 60,000 people, so we have had to undertake a big recruitment drive to encourage people to come from all over Colombia to the coffee-growing regions to help us pick our harvest.

How satisfied are you with the Colombian government's treatment of the industry?

I think that the government has been extremely supportive to the coffee-growing community. It took a big effort by President Santos' government to bring back production from 8 million bags to 14 million, and required significant investment from the government, including supporting prices when they fell heavily. But we hope that once the exchange rate conditions give us a bit of breathing space, we will need less help from the government and will be more autonomous again.

Would you say that Colombia is still 'top dog' in global coffee terms? How successful has the country been in defending its position against the rise of some of the low-cost producers that you mentioned?

I think Colombia has been able to maintain its reputation and commitment as a high-quality coffee producer. We've been lucky to have a new segment in the world coffee market, namely specialty coffees,

which is the fastest-growing market niche. These markets don't want cheap coffee, they want good quality, and Colombia has become the supplier of choice for those players in the specialty coffee sector.

Where else do you see the greatest potential to add value for the benefit of producers?

The value comes from several things. Some people believe that value comes from industrialising the raw materials, but for us adding value comes from producing high-quality coffees that are highly prized by the industry and consumers.

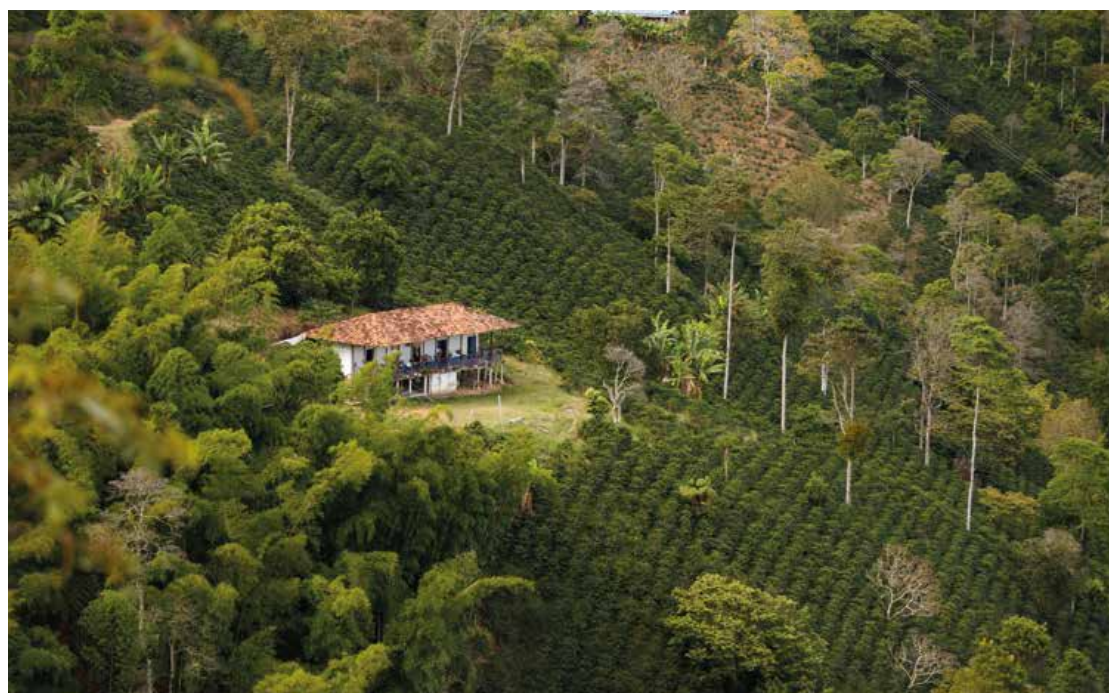
I prefer to talk about something much more important than monetary value: namely, sustainability. This is something that we all talk and hear about, but very few people understand that the concept of sustainability is an umbrella that has three pillars: environmental, social and economic.

Environmentally, there is a lot of work being done now in producing countries and in the industry itself, and consumers in the UK, Europe, North America, and Asia are asking that producers make an effort to maintain and sustain the environment in which we grow our coffee.

On the social side, we strive to avoid child labour and to respect the right to form unions and associations, and I think we have made significant strides in this regard.

The economic side is a little more complex. Not everybody cares if the producers make enough money to maintain and sustain the business in the future. That is something we'd like to address, and something we've become increasingly active in saying to the industry.

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Down the hacienda: Colombia's coffee growing areas comprise some of the country's most spectacular landscapes

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We need think of the industry as a chain, each link of which needs to survive if we want the full chain to be sustainable in the future. We'll be holding a coffee producers' forum next year on this subject, taking advantage of the fact that the FNC will turn 90 in 2017.

What else do you see as the most important trends shaping the industry in terms of production, consumption and competition?

For us it is important to transform the image of coffee from a dark beverage that provides caffeine to the body so you can wake up in the morning to something that is much more sophisticated, like wine, where connoisseurs can distinguish one origin from another, and learn to really appreciate a good cup of coffee.

The other thing that we need to strive for is a much more robust level of consumption in the coffee-producing countries as well. Colombia is a good example; we consume only about 2 kilos per person per year, compared with some Scandinavian countries, where they consume between 10 and 12 kilos.

What impact do you expect the peace process to have on the coffee industry?

It will have a big impact, for many reasons. If you overlay the map of the conflict with the map of the coffee-growing areas, you will see that there were many coffee-growing parts of Colombia that were affected by the violence, so we need to rebuild the fabric of those areas destroyed by this conflict. Secondly, we see it as a good opportunity to undertake reconstruction of the

infrastructure in the coffee-growing areas, which will pay dividends in the future.

We also know that there are a lot of areas that were affected by violence where coffee can be grown, so once peace comes they'll need an economy they can rely on, and coffee could be the answer. And the FNC is willing and able to share our knowledge capabilities to help those areas rebuild.

How important is the UK as a market for Colombian coffee today? What are your plans and expectations for November's State Visit?

The UK market is becoming increasingly important, sophisticated, and quality-oriented. It used to be just a market for instant coffee, but the more you visit the UK, the more you notice that the industry is becoming much more sophisticated; you see coffee shops all over England, and now the younger generation of British consumers is much more exposed to high-quality coffee. That means that the UK is not only important today, but will become even more so in the future.

The UK has also led the world in areas such as Fairtrade, and we believe this is a good sign for the whole industry. Again, when you talk about sustainability and you see a market that really cares about what happens on the other side, it sets a good example to the rest of the world.

The State Visit by President Santos will be a great opportunity to promote the name of Colombia, which has always been associated with good coffee, so for us it is a great opportunity and an honour to be there as one of the country's most iconic products. **F**



Bean there, done that: A coffee grower enjoys the fruits of his labours