STATEMENT ON UGANDA NOT JOINING THE EXTENSION OF THE INTERNATIONAL COFFEE AGREEMENT 2007

BACKGROUND

The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together exporting and importing Governments to tackle the challenges facing the world coffee sector through international cooperation. Its Member Governments represent 98% of world coffee production and 83% of world consumption.

The ICO's mission is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the coffee sector.

The ICO was set up in London in 1963 under the auspices of the United Nations. The ICO administers the International Coffee Agreement (ICA), an important instrument for development cooperation. The latest Agreement, the ICA 2007, entered into force on 2 February 2011. Uganda signed the ICA 2007 on 21 September 2009 and ratified it on 1 March 2010. On 29 September 2007 the Council approved Resolution 431, adopting the text of the ICA 2007 and designated the ICO as the Depositary of ICA 2007. Therefore, the ICO is no longer a UN affiliated Agency.

Extension of the International Coffee Agreement 2007

In 2018, the Council formed a Working Group on the Future of the Coffee Agreement (WGFA). Since then, discussions of the text of the new International Coffee Agreement have been ongoing for almost three years. In September 2020, the Council approved Resolution 471 extending the International Coffee Agreement (ICA) 2007 for a further year up to 1 February 2022. In August 2021, the Council approved an extension of the 2007 Agreement for a further year until 1 February 2023. However, the text of the new Agreement does not reflect any new measures to address the challenges faced by the coffee producers and their aspirations. It is likely that discussions will be extended for up to eight years. During the two years of extension, the ICO will operate at low key, except drafting the text of a new Agreement.

Reforms to address challenges in the coffee sector

The Government of Uganda represented by Managing Director of Ugandan Coffee Development Authority (UCDA) has been actively participating in the activities of the Organisation. In 2019, he was elected Chairman of the Finance and Administration Committee. In his capacity as Chairman, together with other Members of the Organisation, has been pushing for reforms to make the Organisation more agile and proactive to address the needs of the coffee producers and fair incomes.

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Uganda's concerns to be addressed in the new ICO Agreement

Uganda is the 7th largest coffee producer in the world and the largest coffee exporter in Africa. It produces Robusta coffee comprising of 80% and Arabica coffee (20%). Uganda exported 6.1 million bags of coffee valued at US$559 million in 2020/21 and is projected to reach 7.5 million bags in FY2022/22. Thus, it is imperative that as a coffee producer our interests needs to be protected.

The following are Uganda's concerns to be addressed in the new International Coffee Agreement;

1. **Promotion of Value addition:** Uganda needs unconditional market access that allows for export of value-added coffee not only green coffee. These are transfer of more values to the farm gate through promotion of value addition and domestic coffee consumption, and new penetration to global markets. The new coffee agreement should have increased focus on value addition with protracted programs that aim at transferring values to the farm gate. For example, a cup of coffee at the coffee shop is more valuable than 1 kg of coffee at the farm gate.

2. **Barriers to export processed coffee:** The importing countries impose escalating tariffs and restrictions on imports of value-added coffee. For example, Germany has a Coffee tax on value added coffee which dates back to the 17th Century. In 2009, there was the last revision, including tax rate adjustment: -

   - For 1 kg roasted coffee € 2.19 Euros; and
   - For 1 kg of soluble coffee € 4.78 Euros

   Under the German Coffee Tax Law, (in German: Kaffeesteuergesetz) retailers established in other countries selling coffee to Germany must appoint a fiscal representative located in Germany. The representative needs to be approved by the German customs authority, record the mail order deliveries and pay the tax guarantee and due tax. This requirement prevents retailers from other countries to freely import coffee into Germany and adds additional burdens that make it more difficult in particular for small or medium-sized companies to enter the German market and sell coffee at a distance. In addition to Germany, Belgium and Denmark also charge the tax. These barriers should be negotiated and removed, in order to create even more value for the Uganda coffee sector.

   There are no taxes on green beans. This encourages import of green beans which are re-exported to other countries. Uganda government has repeatedly decried the lost opportunity in our export of raw coffee and thus appropriate negotiations are urgently required.

3. **Coffee price volatility:** Coffee price volatility is threatening the incomes of farmers and sustainability of the coffee sector. There is urgent need to address and solve the structural weaknesses of the coffee sector and to

ensure its sustainable growth and prosperity for farmers and all coffee stakeholders.

4. **ICO Composite Indicator Price:** The ICO collects prices from 'Agents' in the USA (Complete Coffee Coverage), Germany (Deutscher Kaffeeverband/German Coffee Association) and France (Unacaf - French Coffee Association) and the prices from the 3 Agents are used in calculation of the ICO composite indicator price which is used as a bench mark for daily trading around the world. The ICO Composite Indicator Price was created for a regulated market when the quotas were in place upto 1989. This is outdated and needs to be revised. This concern needs to addressed in the new draft Agreement

5. **Classification of coffees:** Uganda is the birthplace of Robusta coffee while Ethiopia is the origin of Arabica coffee. Uganda's coffee production consists of 80% Robusta and 20% Arabica. Countries producing Arabica coffee are grouped in one of the three groups established in the agreement namely Colombian mild Arabicas, Brazilian Natural Arabicas and other mild Arabicas according to the Arabica they produce. Uganda as Arabica coffee producer is not recognized in any groups. In addition, there is only one group for Robusta coffee producers which deprives Uganda of the recognition and promotion of its distinctive quality Robusta coffee. Classification of coffees was established when the quotas were first introduced. This is outdated and needs to be revised. This concern has not been addressed in the new draft Agreement, though we have raised it.

6. **Membership votes and contributions to ICO:** The draft Agreement proposes to use of a mix of 50% value and 50% volume of exports and imports for the determination of votes and contributions. Uganda's position is that contributions should be based on 100% value rather than volume since Uganda exports high volume of Robusta coffee whose value is lower than Arabica coffee of same volume. In addition, the new coffee agreement should address re-exports. For example, in 2019 Germany imported 18.1 million 60 kg bags of green beans valued at €2.3 billion. In the same year, Germany re-exported 5.93 million 60kg bags of green beans and exported 3.93 million 60kg bags of roasted coffee beans at a value of €1.3 billion. However, the international coffee Agreement does not consider contributions to ICO based on re-exports of green beans and exports of roasted coffee.

7. **Increasing role of the Private Sector.** Whereas the ICO is an intergovernmental organization, the private sector (multinational companies) has taken over the affairs of the organization and influence major decisions. The private sector bodies include Private Sector Consultative Board (PSCB), Coffee Public-Private Task Force (CPPTF) and CEO and Global Leaders Forum (CGLF). The new Agreement has proposed

to establish a Board of Affiliate Members comprising the private sector and the civil society. This will weaken the role of governments in the ICO decisions.

8. **Projects to address challenges in coffee producing countries:** Since 2012 the Common Fund for Commodities stopped giving funding to Member States via the ICO. All countries are able to apply for loans directly. The ICO has not found an alternative funding institution for projects to address challenges of coffee farmers including climate change, low production and productivity, pests and diseases, price volatility etc faced by 1.7 million coffee farmers in Uganda whose livelihood depends on this commodity.
9. **Increased budget for programmes:** Since 2007, the UN is no longer the Depositary of International Coffee Agreement. However, the ICO staff continue to be paid UN salary scales. This is costing members a fortune in contributions with 73 percent of the Administrative Budget allocated to personnel costs. Of the overall budget of £1,881,000, personnel costs and premises account for 80% while programme of activities cost £67,000 (3.56%). The new International Coffee Agreement should address this imbalance and allocate more resources to programmes by creating a Technical Fund and split the budget into Administration 40 percent and Technical Fund 60 percent.

Tangible benefits from International Coffee Organization

Uganda joined the ICA 2007 in September 2009 with a view of enhancing the interest of our country and expand our coffee market. However, it has become clear that the ICO is a pro-producer Organisation with no real impact on the markets. The only benefit for consuming countries is getting statistics from agencies such as Bloomberg because countries do not send their data, and a basic monthly coffee market report of no real use. Because of this, UCDA subscribes to other information sources and market analysis reports namely Coffee In-depth Report, F.O. Licht's International Coffee Report, IHS Markt, and National Coffee Drinking Trends.

Implications of Uganda not joining the extension of International Coffee Agreement

Uganda not joining the two-years extension of ICA 2007 will not affect coffee exports or trade in any way. This is because ICO does not regulate coffee trade. Non-ICO members including Guatemala, Paraguay, and China, export coffee in the same way while United States and Turkey are still importing coffee after leaving ICO.

During the two years, Uganda will still issue the ICO Certificate of origin on coffee exports. All exports of coffee from member and non-members of ICO have country codes on their certificates of origin. The certificates of origin were imperative to ascertain full implementation of the quotas and after the quotas were suspended in 1989, the certificate of origin is voluntary. Its issuance is for collection of statistics, which is helpful in compilation of statistics to submit to relevant government agencies, and URA purposes in the collection of the Coffee Cess.

The only implications are that Uganda will not pay the annual contributions of £43,000 (Shs 210 million) which Uganda can invest to support Ugandan coffee farmers in value addition.

Position of other ICO members on extension of International Coffee Agreement
On 5th September 2021 Vietnam, the second largest coffee exporter and predominant exporter of Robusta coffee notified ICO of their intention not join the extension of the International Coffee Agreement due to the unreasonable articles in the Agreement which need to be amended. USA left the organization in 2018 and Guatemala in 2019. Paraguay and Turkey had also left the organization due to lack of tangible benefits. We are reliably informed that a number of coffee producers are making consultations on the draft articles and may not join extension by 1 February 2022.

CONCLUSION
Firstly, the decision to notify the ICO of Uganda's intention not to join the further extension of two years of the International Coffee Agreement 2007 (ICA 2007) was principally taken on the following grounds:

a) Resolution number 436 of ICC states: the Depositary for the 2007 Agreement, in a manner consistent with the 1969 Vienna Convention on the Law of Treaties: "*Article 7 c) representatives accredited by States to an international conference or to an international organization*". By virtue of Article 7 c) of the 1969 Vienna Convention, the accredited representative of a country is authorised to make decisions on behalf of the country and notify the organization accordingly;

b) The ICA 2007 was already extended for one year until 1 February 2022. Under article 48 of ICA2007 there is provision to extend the Agreement for 8 years. Resolution No.473 provides for a further two years Extension of the Agreement until 1 February 2024. Since four years the Organization has been drafting the text of a new International Coffee Agreement. The draft is still not on the table and there has been no discussion on the challenges faced by the coffee producers;

c) Uganda did not withdraw from the ICA2007 pursuant to Article 45 of the Agreement. We have only suspended our membership for two years by not joining the proposed Extension;

d) The only leverage Members have to force a change in the Agreement is to put pressure on the ICO by not joining the further two-years Extension of the Agreement. This will be instrumental to incorporate key performance indicators to all the objectives mentioned in the Agreement. The Agreement is written in a very generic manner so the Organization is not bound by any result based goals. This is the shortfall in the way it is worded and therefore has lead to the Members frustration that countries are not getting any benefits out of the membership.

e) Most importantly the new Agreement should include the creation of MOUs with financial donor institutions to carry out projects which have been dormant for over a decade, study and dissemination of information on the imminent threat of climate change; the impact of the pandemic, etc.

f) Membership of ICO has no impact on trade or export or import tariffs;

g) Certificates of Origin became voluntary after quotas were suspended in 1988. Therefore not all countries send their statistics. Also at the request of Brazil, the International Coffee Council has now approved the abolition of physical copies of Certificates of Origin. Countries will have to forward data digitally.

h) Importing countries namely United States of America (USA) and Turkey and exporting countries namely Guatemala and Paraguay withdrew from the Organization since 2018. This is the second time USA withdrew from the Organization. Both importing and exporting countries left due to lack of tangible benefits.

i) In 2020, 10 countries revolted on the high contributions demanded by the Organization. Members mentioned that ICO is the most expensive commodity organisation and that there are no tangible benefits and therefore requested for a reduction of 50% in their contributions;

j) Suspending membership for two years will give Uganda a chance to use the resources to further enhance our coffee sector and focus on the aspirations of Coffee Roadmap to increase production to 20 million bags by 2025/30.

k) Uganda has been engaging with other African countries to develop strategies to enhance production and also start a campaign to boost domestic coffee consumption in Africa. In this regard, our strategy is to strengthen the coffee sector regionally by advocating projects through the InterAfrican Coffee Organization (IACO).

l) The Administrative Budget 2021/22 states: "*A Reserve Fund shall be established for the purposes of meeting potential obligations or requirements in the event of the need to terminate the Agreement....*". The Report 31 July 2021 on the Financial Situation states: *a serious cash shortage after about six months if no funds are received from Members.* Therefore, there is an imminent risk of liquidation and Uganda can be caught in a huge financial bill.

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