

The following documents consider issues related to economics of food. Read them **both** in order to answer **all** the questions on the paper.

Document A: adapted from *Why Coffee Prices Today are Increasing Around the World*, an article written by Sudhanva Shetty, published in 'TRANSFIN' in 2021. The author is a policy analyst focusing on India and is the editor of TRANSFIN, which is an online platform for business and finance analysis.

If the world was one nation, coffee would be the national drink.

Coffee's universal popularity is well understood. It is the world's second-most traded commodity after oil. At least 500 billion cups are consumed each year, and coffee beans are also used in cosmetics, fertilizers, art and pharmaceuticals. But like all commodities, coffee is not an unlimited resource. Its production and distribution are linked to geography and geopolitics. And the international supply chain that brings it to our tables is both complicated and delicate.

Over the past year, due to a combination of factors, the price of coffee has steadily increased. At the start of June, the price of Arabica beans on the New York stock market hit a four-and-a-half-year high of almost USD 1.70 a pound, up almost 70% year-on-year.

The reasons for increasing prices are complicated. The main reason has been the COVID-19 pandemic. This caused a severe crisis in the shipping industry and labour shortages worldwide. According to the United Nations Conference on Trade and Development, 80% of international trade (by volume) is carried out via sea. Many ports were closed, demand for cargo plummeted and bankruptcies skyrocketed. This affected the supply chains of virtually all traded commodities.

Furthermore, coffee harvesting is a labour-intensive process, meaning it cannot be done whilst maintaining social distancing. So, for instance, when India went into a national lockdown last year, thousands of migrant workers were forced to return to their homes. Back in the coffee plantations in South India, this meant fewer people available to harvest the crop. This caused delays and decreased outputs.

A global coffee crisis is knocking on our doors. Until 1989, coffee prices were relatively stable despite fluctuating outputs. This was largely due to the International Coffee Agreement (ICA), which coordinated and unified pricing policies for coffee-exporting nations. However, the ICA collapsed in 1989 and coffee prices went into free-fall. This was damaging to small-scale coffee farmers, who grow 60% of all coffee, according to CARTO. Many small-scale farmers moved onto more profitable crops or sold their lands to larger producers. This may have negative effects as global demand continues to surge.

In addition, global warming leads to erratic weather patterns and higher temperatures, both of which are disastrous for the crop. By 2050, nearly half of the current coffee-growing regions could be affected. This is already happening. In Colombia, the Zona Cafetera region has warmed by 1.2 degrees since 1980. This has forced farmers to move higher up the mountains to find cooler environments for growing the plant. This leaves low-lying plantations to either produce low-quality beans or die out completely.

Fixing distribution problems and addressing labour shortages are short-term solutions. Establishing a fair global trade system for coffee and broader climate action are long-term ones. Each of these are challenging in their own ways, but the climate crisis is the biggest worry. With global temperatures predicted to rise by 1.5–2 degrees, even with climate action inspired by the Paris Agreement, avoiding the incoming coffee crisis is easier said than done.

Document B: adapted from *Misery at the Farm: Africa's Coffee Farmers are Losing Billions to Exploitation*, a press release from the online platform Selina Wamucii, published in 2020. Selina Wamucii is a platform for food and agricultural produce from Africa's agricultural cooperatives, based in Nairobi, Kenya.

Coffee is one of the world's top traded commodities, like crude oil, gold, and natural gas. The coffee industry is one of the most important agricultural sectors worldwide. Evidence shows that such top commodities have delivered life-changing incomes for the populations involved in their primary production. For example, oil has contributed immensely to the wealth of citizens of oil-producing nations. But the same cannot be said for millions of African farmers who break their backs to produce extremely high-quality coffee. The world is enjoying the farmers' fine coffee, the stock exchanges in Europe and America are swimming in fat coffee profits, but the poor farmers back in Africa are left with incomes that cannot provide even one decent meal per day. This is blatant exploitation of millions of African farmers and cannot be justified.

African farmers receive the lowest prices of all coffee growers, globally. African coffee farmers are losing USD 1.47 billion every year from exploitative pricing of their crops. Due to unfair trade terms, it is estimated that Ethiopian coffee farmers will lose USD 713.1 million and Ugandan coffee farmers will lose USD 229.7 million, in one year alone. These amounts are crucial for African countries where coffee is the major export product.

Millions of family farmers across Africa are facing economic devastation as raw coffee prices offered to them continue to fall, often below production costs. Also, African farmers' share of the roasted coffee value chain is ranging from 8.7% to 12.6%, while India's coffee growers are getting 15.7% and coffee growers in Brazil are getting 14.9%. The remaining profits go to the rest of the roasted coffee value chain. This consists of different groups, including local intermediaries, exporters, insurance and freight companies, roasters and retailers.

Wanjiru Kariuki is a 68-year-old coffee farmer from Othaya, about 120 kilometers north of Nairobi, Kenya. She wonders how she can be so poor, while profits for multinational coffee dealers increase year after year. "Look at this tight belt - it holds my stomach in and helps avoid hunger pangs", said Wanjiru, pointing towards her waist. "I am poor, hungry, and shoeless. Those who benefit from my hard work cannot even tie a belt like this, as they have stomachs bigger than a hippopotamus, all from my coffee" added the grandmother of four.

According to John Oroko, CEO of Selina Wamucii, this situation cannot continue for the African farmer. The existence of these coffee farmers is threatened. "The only feasible solution is the establishment of a quota-based, International Coffee Agreement, that sets export quotas and helps steer the price and makes it possible for farmers to live from the proceeds of their hard work," says Mr. Oroko.

He concludes that "If Africa wants to bring to an end the exploitation eating away her coffee farmers, the global trading rules for coffee will have to be changed through a pro-farmer political framework. And if this cannot be achieved within the confines of the World Trade Organization, then Africans are better off ... executing a Pan Africa Coffee Agreement that doesn't fatten a few, while sucking the life out of farmers. Anything else is pure tokenism that seeks to buy time."

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