Distr.
RESTRICTED

E/CEPAL/R.323
10 August 1982

ENGLISH
ORIGINAL: SPANISH

C E P A L

Economic Commission for Latin America

THE TRANSNATIONAL OLIGOPOLY IN THE COFFEE INDUSTRY AND THE CASE OF COLOMBIA

82-7-1347

CONTENTS

/INTRODUCTION

INTRODUCTION

In July 1977, an aide-memoire was signed by the Executive Secretaries of of the Economic Commission for Latin America (CEPAL) and the Economic and Social Commission for Asia and the Pacific (ESCAP) calling for interregional co-operation between the two Commissions in the field of transnational corporations. In that aide-memoire, the Executive Secretaries agreed to launch an interregional research project on the impact of transnational corporations on primary commodity exports from developing countries. Based on appropriate provisions incorporated into the understanding, the Economic Commission for Africa (ECA) joined the project in early 1978.

It was agreed at that time that the three regional Commissions, together with the United Nations Centre on Transnational Corporations in New York (UNCTC), would co-operate in the conduct of in-depth country case studies on the impact of transnational corporations on the export of primary commodities from selected developing countries. To provide a common focus for the country case studies, a general conceptual framework was written focusing on (i) factors determining the relative bargaining positions of host governments and transnational corporations and (ii) the resulting distribution of gains between the host country and the transnational corporation.1/

The conceptual framework for the case studies has been kept very broad in order to accommodate the multivaried conditions which exist among primary commodity export industries in different countries. It is therefore meant to apply to the various forms of transnational corporation involvement in such industries, from the traditional major direct equity investment by one or more transnational corporations in production, transformation and trade of primary commodities, to

---

1/ See, "Transnational corporations in export-oriented primary commodities: a study of relative bargaining positions and distribution of gains", CEPAL/CTC Joint Unit, (Santiago, Chile, 30 August 1977) and the modified version "Transnational corporations in export oriented primary commodities: A general conceptual framework for case studies", Joint ESCAP/CTC Unit on Transnational Corporations, Working Paper No. 1, New York, September 1978.

/the newer

the newer forms of licensing agreements, joint-ventures, trilateral arrangements, production-sharing agreements and so forth. It is meant to apply to negotiations and renegotiations associated with the nationalization of a foreign direct investment already operating in a host country.

The ultimate aim of the case studies carried out according to the conceptual framework, and indeed of the whole interregional project, is to provide host developing country governments with an input of objectively derived material with which they can evaluate TNCs involvement and their agreements with them and realize the potential for increased bargaining capacity towards TNCs, as well as, ascertain the relative advantages and disadvantages of policy options at their disposal. To this end, an interregional expert group meeting was convened at ESCAP headquarters in Bangkok in October 1979 to review the case studies up to that point completed by the three regional Commissions. The meeting suggested the most important policy issues and further areas of research in the interregional project and the integration of the case studies from each region into global commodity and sectoral studies to be presented at an interregional seminar in Geneva (November 1982) on transnational corporations and primary commodity exports.1/

In addition, in its last three ordinary sessions (1975, 1977 and 1979) CEPAL adopted individual resolutions on co-operation among developing countries and among developing regions of different geographical areas.2/

Following the conceptual and institutional framework indicated above CEPAL, through its Joint Unit with the United Nations Centre on Transnational Corporations, has been concerned with this subject over the last few years. Case studies had been accomplished on TNCs involvement in seven commodities in the different countries of the region (bauxite in Jamaica, copper in Chile and Peru tin in Bolivia, cotton in Mexico, bananas in Honduras and Panamá, coffee in Colombia and sugar cane and its use for energy in Brazil), applying the common methodology of the interregional project and taking into account the specific problems and needs of the region and the selected countries.

1/ See, "Report of the Interregional Expert Group Meeting on Transnational Corporations in Primary Export Commodities", Bangkok, 8-15 October 1979 (CTC/ESCAP/PEC/2) and UNDP, Proyecto de los Gobiernos de Bolivia, Brasil, Colombia, Chile, Honduras, Jamaica, México, Panamá y Perú, sobre el "Fortalecimiento del poder de negociación de los Gobiernos Huéspedes en sus tratos con las empresas trasnacionales dedicadas a la exportación de productos básicos" (RLA/80/016/A/01/02).

2/ See CEPAL resolutions 363 (XVII) adopted in Guatemala and 387 (XVIII) adopted in La Paz.

/The results

The results of the studies on copper and tin had been presented to the seminar on Alternative Approaches to Negotiating with Foreign Investors and Transnational Corporations in the Copper and Tin Industry, organized by CEPAL in Santiago, Chile, 9-12 December, 1981, with the participation of high-level officials of the public and private sectors and representatives of foreign enterprises from Bolivia, Brazil, Chile and Peru 1/ and to the seminar on Policies and Negotiations with Transnational Corporations in Mining, organized by the United Nations Centre on Transnational Corporations and CEPAL in co-operation with the Ministry of Mining and Metallurgy of Bolivia, in La Paz, 17-22 May of 1982, with participation of high-level officials of the public and private sectors of this industry. Finally, a similar seminar is envisaged for the export oriented tropical products (banana, coffee, cotton and sugar cane) to take place in Panama in co-operation with the Union of Banana Exporting Countries (UPEC) and the Government of Panama.

In the forthcoming phase of the Interregional Project in CEPAL the commodity studies, integrated for the three developing regions, will be accomplished for banana, sugar cane and tin.

In this study consideration is given to the domination and strategies of the transnational oligopoly in the world coffee industry and its repercussions on the participation of the producing countries and, in particular, on Colombia, in the gains derived from this activity. In the first chapter consideration is given to the nature of the world coffee market and, in particular, to the concentration of its processing and marketing in a few transnational corporations (hereinafter referred to as TNCs) which, to a large extent, control the consumer markets of the industrialized countries. The second chapter describes the strategies and policies of the main actors in the world coffee markets, i.e., the TNCs and the governments of the leading consumer and producer countries (with regard to the joint action they take). International prices and factors relating to their trends are reviewed in chapter three. The special problems of the coffee industry in Latin America, in particular where coffee policies in Colombia are concerned, are considered in chapters IV and V. Finally, in the

---

1/ See, Report of the Seminar quoted above (E/CEPAL/R.306, Restricted, February 1982).

/last chapter

last chapter (VI), a attempt is made to draw some conclusions concerning the bargaining capacity and distribution of gains between the coffee producer and consumer countries and the TNCs, with particular attention given to the repercussions on the economy of Colombia.

The study has been prepared in the CEPAL/CTC Joint Unit on Transnational Corporations on the basis primarily of two documents "Concentration Trends in the Coffee Processing Industry", an unpublished report drafted by the United Nations Centre on Transnational Corporations (chapters I and II of this study) and "América Latina y el mercado mundial del café", a study prepared by the CEPAL International Trade and Development Division for publication in the near future (chapters III-V of this study). The updating and use made of these documents for the specific purposes of the interregional project, and the opinions and conclusions expressed in this study are, however, in so far as this phase of the interregional project is concerned, the sole responsibility of the Unit and may not reflect the views of CEPAL.

I. THE

I. THE WORLD COFFEE MARKET AND THE TRANSNATIONAL OLIGOPOLY 1/

1. Introduction: nature of the commodity and its importance in the world economy

(a) Nature of the product

Green coffee beans are processed essentially for obtention of coffee beverages. There are many forms under which coffee products are made available to consumers. The coffee products may vary in terms of beans composition, e.g., arabica, robusta or blend; in terms of presentation, e.g., roasted beans, ground beans or soluble powder; or quality, e.g., with caffeine content or decaffeinated.

Manufacturing classification identified two types of coffee processing industry at the 5-digit level: roasted coffee (SIC 20951) and soluble coffee (SIC 20952). The other products, coffee extracts, liquid concentrates are in comparison negligible users of green coffee beans.

Technically, coffee processing is a relatively simple process.2/ The green beans, after husking, are washed, dried, and roasted. From the ground beans, soluble parts are then extracted with hot water. The resulting liquid can either be consumed directly, or it can be resolidified by evaporation or freezing to yield soluble coffee. The green coffee beans can be stored easily for two or three years without deterioration in quality.

The existence of soluble coffee raises some statistical problems, both for consumption and production ends. The share of soluble in total coffee beverage consumption tends to be underestimated, whereas its share in use of green coffee beans is overestimated. The standard ratio that is used to estimate green coffee beans equivalent to the soluble coffee production, e.g., 3 pounds of green coffee to one pound, tends to underestimate the extraction productivity of processing operations. Rather than one pound of soluble coffee being the equivalent to three pounds of green coffee beans, most processors use only 2.5 pounds of green coffee beans in making one pound of soluble coffee. In fact, because all caffeine content

---

1/ The chapters I and II of this study are an edited and updated version of an unpublished consultant's paper elaborated for UNCTC, "Concentration Trends in the Coffee Processing Industry" (UNCTC, mimeo, October 1981).

2/ S. Singh and J. de Vries, Coffee, Tea and Cocoa: Market Prospects and Development Lending, World Bank Staff occasional paper No. 22, Washington, D.C., 1977.

/of green

of green beans is preserved on the caffeine content of the soluble product 1/ the use of high caffeine content beans, e.g., robusta v.s. arabica, can further reduce the actual amounts of green coffee beans that are necessary, resulting in an even lower equivalent ratio.

On the consumption side, instant coffee yields up to 50% more cups of coffee than can be obtained from the equivalent amount of roasted coffee beans.

For the purposes of this study, the coffee processing industry is defined as comprising firms engaged in the processing of coffee beans and the sale of roasted or soluble coffee products for consumer or enterprise use. Enterprises in the centrally planned economies are not covered by the study since the relevant statistical data and other information are not readily available.

The industry comprises two major segments, roasted coffee and soluble coffee, and this study examines both segments, as well as the overall industry. The final products of the two segments are only partial substitutes; similarly, only limited substitution is possible in production since not all green coffee beans can be used to produce either roasted or soluble coffee. The robusta varieties of coffee, for example, can be more readily utilized in the production of soluble coffee than the arabica varieties.

(b) Coffee in the world economy

(i) Producer countries

Almost all coffee production is concentrated in developing countries. However, a significant shift has occurred over the last 20 years in the country distribution of coffee production and exports and in the type of coffee produced. Brazil's leadership has declined and the country concentration of exports has also dropped. In 1960, the four largest exporters (Brazil, Colombia, Ivory Coast and Indonesia) accounted for 63% of the coffee trade but in the second half of the 1970s their share had fallen to about 50% (see table 1). Since 1945, robusta coffee exports have increased from a tenth of world volume to over a quarter, as countries in Africa and Asia (where robusta is about 75% of total output) have expanded their plantings.

1/ By weight, soluble coffee contains commonly 60% or less coffee beans. The additional 40% being carbohydrates, e.g., chicory, malt and chemical stretchers. The latter are sprayed with coffee flavour and kept under vacuum seal. (See T. Geer, An oligopoly: The World Coffee Economy and Statutization Schemes, Duneelen, London, 1971.)

/Table 1

Table 1

DISTRIBUTION OF WORLD COFFEE PRODUCTION AND EXPORT BY GROUPS ESTABLISHED BY THE INTERNATIONAL COFFEE ORGANIZATION (ICO)

(Averages for coffee years 1976/1977-1980/1981 and 1975/1976-1979/1980)

Groups and countries	Total production Millions of 60-kg bags		Total exports Millions of 60-kg bags	
	Average 1976/1977 - 1980/1981		Average 1975/1976 - 1979/1980	
	Bags	%	Bags	%
COLOMBIAN MILDS	13.9	18.3	10.8	18.8
Colombia	11.6	15.3	8.6	15.0
OTHER MILDS	22.0	29.0	16.1	28.1
Costa Rica	1.6	2.1	1.5	2.6
El Salvador	3.0	4.0	2.8	4.9
Guatemala	2.6	3.4	2.2	3.8
Honduras	1.1	1.4	0.8	1.4
Nicaragua	1.0	1.3	0.8	1.4
México	3.5	4.6	2.4	4.2
UNWASHED ARABICAS	22.3	29.4	14.7	25.7
Brazil	18.9	24.9	13.2	23.0
Ethiopia	3.2	4.2	1.4	2.4
ROBUSTAS	17.7	23.3	15.7	27.4
Ivory Coast	4.4	5.8	4.3	7.5
Cameroon	1.5	2.0	1.5	2.6
Angola	0.6	0.8	1.2	2.1
Uganda	2.1	2.8	2.2	3.8
Indonesia	4.7	6.2	3.0	5.2
Total	75.9	100.0	57.3	100.0

Source: ICO.
FEDERACAFE.

/The shift

The shift towards robusta is explained by three post-war developments. First, coffee production was promoted by the newly independent African countries, with the support of European countries seeking to increase their procurement options. Robusta varieties proved more adaptable in these expansion areas than the arabicas. Secondly, the growth in the consumption of soluble coffee provided an expanding market for these varieties. The soluble products can readily utilize the more acidic robustas whose processing value is relatively undiminished by broken or lower quality raw materials. Thirdly, some roast processors proved able to promote branded products, rather than traditional blends, and to incorporate increasing proportions of cheaper robustas in their product mix.

(ii) Consumer countries

The differences in the geographical patterns of production and consumption are reflected in the volume and pattern of international trade in coffee. Coffee continues to be an important element of world trade, accounting for about 1% of the total value of world imports and exports in 1977-1978. For the developing countries as a group, coffee comprised some 3.4% of the total value of their exports over the same period. Reflecting the geographical distribution of production, exports are highly concentrated among a few countries. In the second half of the 1970s Brazil accounted for almost one quarter of world coffee exports and Colombia, Ivory Coast and Indonesia together accounted for another quarter of the total (see again table 1). Within the trade of individual countries, coffee assumed considerable significance in a large number of cases, accounting for more than 85% of Burundi's export earnings over the period 1970-1978, about three-quarters of the corresponding earnings of Uganda and some two-thirds of those of Colombia and and Rwanda. There were a total of 25 countries for which coffee comprised more than 10% of export values over the period 1970-1978, an indication of the widespread importance of this industry to the developing countries.

Coffee was a less important item in the imports of the developed countries, typically accounting for about 1% of the total value of imports over the period 1970-1978, although for the United States the proportion was over 2%. Within total coffee imports, there was a decline in the position of the United States, from 39% to 31% of the volume of world imports of ICA countries, over the period of the seventies meanwhile the share of EEC rose at the same time from 39% to 44% (see table 2).

/Table 2

Table 2

TOTAL COFFEE IMPORTS OF IMPORTING MEMBERS OF ICO
(1971/1972-1980/1981)

(Thousands of 60 kg bags)

Coffee years	United States		European Economic Community		Other importing members		Total imports
	bags	%	bags	%	bags	%	bags
1971/1972	20 369	38.9	20 506	39.1	11 522	22.0	52 397
1972/1973	23 652	40.9	21 301	36.8	12 929	22.3	57 882
1973/1974	22 715	39.6	21 776	37.9	12 940	22.5	57 431
1974/1975	20 423	37.1	21 592	39.2	13 030	23.7	55 045
1975/1976	21 833	36.6	23 782	39.9	13 985	23.5	59 600
1976/1977	18 400	34.2	22 176	41.2	13 265	24.6	53 841
1977/1978	17 228	35.1	21 236	43.3	10 565	21.6	49 029
1978/1979	21 890	34.7	26 282	41.7	14 859	23.6	63 031
1979/1980	20 128	33.5	25 046	41.7	14 851	24.8	60 025
1980/1981 a/	18 658	31.5	25 996	43.8	14 636	24.7	59 290

Source: ICO - FEDECAFE on the basis of data contained in the Boletín trimestral de Estadística Cafetera, Vol. 1, No. 3, table 11-4 (1971/1972-1973/1974) and Vol. 4, Nos. 2 and 3, p. 31 (1974/1975-1976/1977).
- WP Board document No. 348 of 8 September 1981 (1977/1978-1980/1981).

a/ Estimated.

/Looking to

Looking to the future, it seems unlikely that there will be a significant increase in the demand for coffee. Until recently, coffee and tea were almost unrivalled in their domination of the non-alcoholic beverage markets of developed countries. With the rapid growth of alternatives, such as soft drinks and mineral water, competition in the sector has increased and coffee has declined in relative importance in most countries. In the United States, for example, the percentage of coffee consumers fell from 75% in 1962 to 56% in 1981. At the same time the share of solubles in total coffee beverage consumption increased from 21% to 28% (see tables 3 and 4).

In addition to suffering increased competition from substitutes, the demand for coffee appears to be highly inelastic with respect to both price and income, at least in the medium to long-term. Particularly in the traditional roasted coffee markets, consumption appears to be reaching saturation levels. There are a variety of estimates of the elasticities for demand for coffee. Estimates of the income elasticity of demand in developed countries range from almost zero to around 0.6, although income elasticities in the socialist countries and in producing countries are estimated to be higher (around 1.0 and 0.8 respectively). UNCTAD has estimated the world income elasticity of demand for coffee to be around 0.39. For price elasticity, the estimates range from zero to about -0.26 for developed countries and from -0.2 to -0.8 for developing countries. Overall UNCTAD estimates that the world price elasticity of demand for coffee does not differ significantly from zero.1/

These characteristics of the demand for coffee suggest relatively slow growth in the market in the 1980s. One estimate suggests that demand in the developed economies in 1985 will be no more than 20% higher than in 1972-1974, while production may increase by between 29 and 45% over the same period. Demand in the developing countries may grow more rapidly, but these countries account for a relatively small portion of the total market and consequently cannot have a significant impact on the general perspective for the coffee market.

1/ These estimates of elasticities are taken from S. Singh, J. de Vries, J.C.L. Hulley and P. Yeung, Coffee, Tea and Cocoa - Market Prospects and Development Lending, World Bank Staff Occasional Paper No. 22 and The world commodity situation and outlook - report by the UNCTAD secretariat (TD/B/C.1/207).

/Table 3

Table 3

COFFEE CONSUMPTION IN THE UNITED STATES
(1962-1981)

(Percentage of consumers of coffee and other beverages)

	1962	1979	1980	1981
Coffee	74.7	57.2	56.6	56.4
Tea	24.7	33.5	31.7	32.6
Milk	53.6	51.2	50.5	50.4
Carbonated beverages	32.6	53.0	51.1	51.8
Juices	41.4	43.9	45.2	47.5

Table 4

COFFEE CONSUMPTION TRENDS IN THE UNITED STATES (1962-1981)

(Cups per person per day)

Year	Total consumption	Roasted and ground	Soluble
1962	3.12	2.45	0.67
1965	2.79	2.21	0.58
1970	2.57	1.91	0.66
1975	2.20	1.52	0.68
1980	2.02	1.39	0.62
1981	1.92	1.38	0.54

Source: Winter 1981 - National Coffee Drinking Study (carried out for the Promotion Fund of the International Coffee Organization).

Producing countries therefore face a relatively stagnant market for raw coffee beans. Under these circumstances and apart from short-term fluctuations, projections also suggest that there is also unlikely to be any dramatic change in the real price of coffee over the long term. In order to derive further benefit from their production of this raw material, developing countries need to increase their share of the value-added in processing coffee. There are certain physical constraints in achieving this objective, but the following chapters suggest that the growing importance of TNCs present an even greater barrier to the entry of enterprises from developing countries into the coffee processing industry.

2. The leading TNCs in the coffee industry in the 1970s

Table 5 provides data on the 1976 sales of 22 major coffee processing firms. Coffee sales of and over US$ 40 million were recorded by twenty firms, of which eight were based in the United States, five in the Federal Republic of Germany, three in the United Kingdom and two in Switzerland. These twenty companies accounted for coffee sales of more than US$ 6.5 billion in 1976, or over 85% of the industry's revenues in industrialized market economies in that year. Within this group, the size distribution of firms is skewed with the six largest processors -comprising five large diversified transnational food corporations and one specialist coffee producer (Jacobs of Switzerland 69% of total sales)- accounting for about 60% of world coffee sales. The foreign sales participated in the global coffee operations of those firms with 11-93%. Another 14 lesser coffee processors in Europe and the United States, of which six were coffee-specialists, (50-100% of total sales) had annual coffee sales in the US$ 50-US$ 220 million range. Five of those lesser firms had foreign content of their coffee sales of 20% and more.

The seven specialist producers (including Swiss Jacobs) among the top 20 firms are active principally in the roasted coffee segment in Germany and Italy. Including non-coffee sales, their average turnover in 1976 was some US$ 300 million which was only about 25-30% of that of the diversified TNCs in the six leaders group. With the exception of Jacobs and German Hag the specialists have little foreign processing involvement.

/Table 5

Table 5

TOTAL SALES AND ESTIMATED COFFEE PRODUCTS SALES AND MARKET SHARE OF LEADING FIRMS (1976)

Parent corporation	Total revenues	Coffee sales				Rank in developed country coffee product markets	
		Total	Foreign	%		Roasted coffee industry	Soluble coffee industry
				Coffee total	Coffee foreign		
	Millions US dollars			Revenues total	Coffee total		
1. General Foods (USA)	4 910	1 500	500	30	33	I	II
2. Nestlé (SWI)	7 248	1 150	1 050	16	91	-	I
3. Procter and Gamble (USA)	7 349	900	100	12	11	II	III
4. Consolidated Foods (USA)	3 315						
Douwe Egberts (NLD) a/	...	530	250	...	47	IV	IV
5. Standard Brands (USA)	1 810	480	350	26	73	V	V
Van Melle (NLD) b/	...						
6. Jacobs (Switzerland)	625	430	400	69	93	III	-
7. Atalla (BRA)	...	220	...	...	...	VI	-
8. Tchibo (FRG)	385	200	-	52	-	VII	-
9. Hag (FRG) c/	250	200	50	80	25	-	-
10. Coca Cola (USA)	3 032	200	70	7	35	VIII	V
11. Brooke Bond (UK)	1 193	150	30	13	20	-	VII
12. DEK (FRG)	150	150	-	100	-	-	-
13. Lavazza (ITA)	150	150	-	100	-	VII	-
14. Eduscho (FRG)	150	150	-	100	-	-	-
15. Allied Breweries (UK)	3 255	...	...	...	...	-	-
Lyons (UK) d/	1 468	150	70	10	47	-	VIII
16. CPS Continental Coffee (USA)	512	90	-	18	-	-	-
17. Kroger (USA)	6 095	85	-	1	-	-	-
18. Cadbury-Schweppes (UK)	1 590	85	-	5	-	-	-
19. Great A and P (USA)	7 236	80	-	1	-	-	-
20. Melitta (FRG)	514	40	20	8	50	-	-
21. Ahold (NLD)	910	20	-	2	-	-	-
22. American Brands (USA)	4 125	20	-	0.5	-	-	-

Source: See Corporate Annual Reports; Moody's, DAFSA.

a/ Bought by Consolidated Foods in 1976. b/ Bought by Standard Brands in 1975.

c/ Bought by General Foods in 1979. d/ Bought by Allied Breweries in 1979.

/The five

The five diversified coffee industry leaders had gross revenues from all sources ranging from some US$ 1.8 billion to US$ 7.3 billion, placing them among the world's 50 largest food processing companies.1/ Most are conglomerate processors or large wholesale retail distribution corporations. On the average, these firms are involved in more than 10 different food lines, with a common emphasis on brand name differentiation and high marketing expenditures. Their relatively small research and development expenditures are directed primarily towards marketing. For most of their product lines, rivals are few in any given country. Predominance in a product market is typically achieved through the successful national distribution of popular brands. Growth through acquisition and mergers is the most important means by which nearly all these firms have entered product markets and consolidated their leadership positions. Acquisitions centre on firms already well established in their specific markets.2/ Since the 1960s all have extended foreign operations into a variety of food lines.

The transnational orientation of the coffee leaders is evidenced by the international spread of their production and its growing importance in their overall business. Table 6 shows that the ten largest diversifed leaders each have foreign affiliates active in at least 40 food and other processing lines, with as many as 291 in the case of Nestlé and 138 for Consolidated Foods. General Foods, Procter and Gamble and Consolidated Foods each derive 25-30% of their total revenues from foreign manufacturing. For the other diversified leaders, foreign affiliates account for 40% or more of total output or assets. Most are involved in more than 20 countries, although Coca Cola has more than 100 foreign affiliates and Nestlé 54.

The transnational coffee leaders also hold prominent positions at the world level in other concentrated industries. Particularly important is their presence in other segments of the beverage market, shown in table 7. In the chocolate industry, Nestlé is the world leader, with Cadbury-Schweppes and General Foods fourth and fifth respectively.3/ In the tea industry, Brooke Bond is the world

---

1/ Transnational Corporations in Food and Beverage Processing (United Nations publication, Sales No. E.81.II.A.12), Table V-1

2/ See later part II.1 (a) and (b) of this study.

3/ General Foods and Nestlé are ranked second and third respectively in the chocolate industry in the United States. Nestlé, Cadbury-Schweppes and Consolidated Foods are among the five largest chocolate firms in Europe.

/Table 6

Table 6

TRANSNATIONAL OPERATIONS OF LEADING COFFEE CORPORATIONS (1976)

eading corporations	Measures of foreign operations				
	No. of countries with food processing			Foreign share of total revenues (%)	Foreign share of total assets (%)
	Total	Developed Market Economies	Developing countries		
eneral Foods (USA)	14	10	4	26	28
Hag (FRG)	1	1	-	20	NA
estlé (SWI)	54	33	21	97	95
rocter and Gamble (USA)	19	12	7	25	19
onsolidated Foods (USA)	6	6	-	29	40
Douwe Egberts (NLD)	12	9	3	30	NA
tandard Brands (USA)	23	8	15	40	45
talla Group (BRA)	4	3	1	NA	NA
acobs (SWI)		7	-	80	NA
chibo (FRG)	1	1	-	NA	NA
oca Cola (USA)	100	NA	NA	44	37
rooke Bond (UK)	25	13	12	61	63
EK (FRG)	1	1	-	NA	NA
avazza (ITA)	1	1	-	NA	NA
llied Breweries (UK)	12	8	4	38	NA
Lyons (UK)	14	10	4	54	NA
adbury-Schweppes (UK)	23	14	9	40	47
PS Continental Coffee (USA)	1	-	1	NA	NA
reater A and P (USA)	5	4	1	NA	NA
merican Maize Prod. (USA)	-	-	-	-	-
elitta-Werke (FRG)	19	13	6	NA	NA
merican Brands (USA)	2	2	-	49	30

ource: See table 5.

/Table 7

Table 7

DIVERSIFICATION AND WORLD LEADERSHIP OF COFFEE PROCESSORS IN BEVERAGE INDUSTRIES (1976)

Firms a/	Rank in world industry				
	Coffee		Tea	Cocoa products	Soft drink concentrates
	Roasted	Soluble			
General Foods	I	II	-	VII	III
Nestlé	-	I	IV	I	-
Procter and Gamble	II	III	-	-	-
Consolidated Foods	IV	IV	-	VII	VIII
Standard Brands	V	V	III	-	-
Jacobs	III	-	-	-	-
Coca Cola	VIII	V	VII	-	I
Brooke Bond	-	VII	I	-	-
Allied Breweries b/	-	VIII	VI	-	-
Cadbury-Schweppes	-	-	V	IV	IV

Source: Transnational Corporations in Food and Beverage Processing (ST/CTC/19), United Nations Centre on Transnational Corporations, 1980.

a/ Firms are listed in order of total coffee sales.

b/ Includes sales of Lyons (UK).

/leader, with

leader, with Standard Brands, Nestlé, Cadbury-Schweppes and Allied Breweries being the next top world firms. Together these firms account for about 85% of the world tea industry outside Japan. In the soft drink sector, Coca Cola is the world leader with over 40% of world concentrate production. General Foods, Cadbury-Schweppes and Consolidated Foods are also among the world leaders, being in third, fourth and eighth positions respectively.

3. Leading consumer markets and their domination by TNCs

This part of the study examines the changes which have occurred in the participation of the leading TNCs in the coffee processing industry, in each of its segments and in the major national markets. It includes an examination of the geographic expansion both of the industry itself and of the leading firms in the industry of developed countries with market economy.

(a) Roasted coffee market

Roasted coffee is still the most important industry product in terms of raw material use and revenue. As indicated in table 8 the leading TNC in this sector is General Foods which held about one-sixth of the world market in roasted coffee in 1978, an increase from its one-eighth share in 1960. Jacobs, a specialized and leading European-based processor of roasted coffee, more than doubled its share of the world market (from 2 to 4.5%) in the same period. The other leaders with a share of more than 1% are large diversified food TNCs which either entered the coffee industry recently (largely through acquisitions) or expanded significantly in the 1960s and early 1970s. As a result of these events, during the last two decades, the global measure of four-firm industry concentration increased from 28% to more than 32%.

Until the 1950s, numerous small and medium scale firms specialized in the coffee industry held the bulk of sales in Europe and North America. In the eight largest country markets (accounting for over 90% of world roasted coffee consumption), only the Benelux countries had four-firm concentration ratios in excess of 50% in 1960 (see table 9). By 1978, all the major markets had reached and overpassed that level, and in six countries the ratios exceeded 65%. In the United States and the Federal Republic of Germany, the four-firm concentration ratio was about 50% in 1960 but exceeded 66% in 1978. In France, Sweden and Denmark the four-firm concentration ratio more than doubled, and in Italy, it more than quadrupled from 11% to almost 50%.

/Table 8

Table 8

ROASTED COFFEE INDUSTRY: MARKET SHARES OF LEADING FIRMS AND MEASURE OF CONCENTRATION IN DEVELOPED COUNTRY MARKETS (1960-1978)

Leading firms	Estimated market share (%)			
	1960	1968	1975	1978
General Foods (USA)	13.0	17.0	16.1	16.5
Procter and Gamble (USA)	-	9.0	7.0	8.0
Folgers (USA) a/	5.2	-	-	-
Jacobs (SWI)	2.0	2.5	3.0	4.5
Consolidated Foods (USA)	...	...	...	3.8
Douwe Egberts (Netherlands) b/	...	...	2.4	-
Standard Brands (USA)	...	2.8	1.3	2.6
Van Nelle (Netherlands) c/	...	...	2.0	-
Atalla Group (Brazil)	...	...	...	2.0
Hills Bros. (USA) d/	5.2	6.0	2.5	-
Four-firm concentration ratio (%)	28.0	34.8	28.5	32.5

Source: Based upon corporate Annual Reports; Moody's; DAFSA.

a/ Acquired by Procter and Gamble (USA), 1962.
b/ Acquired by Consolidated Foods (USA), 1977.
c/ Acquired by Standard Brands (USA), 1976.
d/ Acquired by Atalla Group (Brazil), 1976.

/Table 9

Table 9

ROASTED COFFEE INDUSTRY: MARKET CONCENTRATION MEASURES IN NINE DEVELOPED COUNTRIES (1960-1978)

Country a/	Four-firm sales concentration ratio (%)	
	1960	1978
United States	46 b/	69
Federal Republic of Germany	49	67
France	25	60
Italy	11	49
Netherlands	66	86
Sweden	35	81
Belgium-Luxembourg	80 c/	90
Denmark	18	55
United Kigdom	-	70 d/

Source: See table 8.

a/ Countries ordered by value of total coffee imports, 1976-1977.
b/ 1958.
c/ Three firms.
d/ Two firms.

/In the

In the 1960s, and particularly in the 1970s, there was a significant trend towards the "internationalization" of all major roasted coffee markets except the United States. The number of foreign processing affiliates controlled by the leading TNCs has increased considerably over the last 20 years. These firms have succeeded in obtaining strong market positions in most of the markets in which they are involved. As an indication of the transnational penetration of the leaders, all five leading coffee roasting companies held at least one market leadership position outside their home country in 1979, whereas in 1960 only one company (Jacobs) held such a position. By 1979, foreign firms controlled more than one-third of industry output in the Federal Republic of Germany, France and the Scandinavian countries. In the Benelux countries, their share exceeded 75% in that year.

(b) Soluble coffee market

The soluble coffee sector of the industry has grown rapidly since 1960, and now accounts for about one-quarter of the volume of the coffee processing industry's sales. This growth has not, however, been accompanied by any decline in concentration, although the relative positions of the leaders has changed over the period. As indicated in table 10 the TNCs, Nestlé and General Foods together held about 73% of world sales of soluble coffee in 1960 and about 75% in 1978. The lesser firms in the soluble sector of the industry are the same large diversified firms which entered the roasted coffee sector; however, none has gained more than 5% of the global soluble market.

Despite the rapid market expansion between 1960 and 1978, the soluble coffee sector remained very highly concentrated within individual countries. The average four-firm concentration ratio for developed country markets stayed at about 85% during the period (see table 11). In 1978, the 12 largest country markets all had concentration ratios of over 75% and between 1968 and 1978 the four-firm concentration ratio in the United States and the Federal Republic of Germany rose to above 90%. Despite the significant growth of soluble markets in France, Japan and the United Kingdom, four-firm concentration in those countries remained above 90%.

/Table 10

Table 10

SOLUBLE COFFEE INDUSTRY: MARKET SHARES OF LEADING TNCs AND MEASURES OF CONCENTRATION IN DEVELOPED COUNTRY MARKETS, 1960-1978

Leading firms	Estimated market share (1%)			
	1960	1968	1975	1978
Nestlé (Switzerland)	33.5	31.0	43.5	42.0
General Foods (United States)	40.0	47.0	37.0	33.0
Procter and Gamble (United States)	-	5.0	4.0	4.0
Consolidated Foods (United States)	-	-	-	2.0
Douwe Egberts (Netherlands) a/	-	-	2.0	-
Standard Brands (United States)	-	2.5	1.0	1.0
Four-firm concentration ratio (%)	73.5 b/	85.5	86.5	81.0

Source: See table 8.

a/ Acquired by Consolidated Foods (United States) in 1977.
b/ Two-firm concentration ratio.

As indicated in table 12, the degree of foreign control of soluble coffee markets has consistently been at a very high level in the major European economies, ranging from about 75% to 95% of sales over the period 1968 and 1978. Although the extent of foreign ownership was originally relatively low, in the Netherlands, it increased from 31% to 80% during the same decade.

In the United States, the extent of international penetration more than doubled between 1960 and 1978. Table 13 shows that Nestlé initially lost part of this market but then increased its share holding over 32% of soluble sales in 1979. Most markets are now dominated by one or both of the two leading firms, Nestlé (Switzerland) and General Foods (United States). An examination of the top four positions in each of the ten largest country markets shows that the six leading firms held 30 out of 40 such leading positions in 1978 compared with only 18 in 1960. The breakdown of these industry positions by company contained

/Table 11

Table 11

SOLUBLE COFFEE INDUSTRY: MARKET CONCENTRATION MEASURES IN 15 DEVELOPED COUNTRY MARKETS (1968/1969-1977/1978)

Country a/	Four-firm concentration ratio (%)	
	1968/1969	1977/1978
United States	85 b/	91
Federal Republic of Germany	82	94
France	97	92
Italy	95 c/	86 c/
Japan	90 c/	...
Netherlands	66 d/ e/	80
United Kingdom	94 d/	90
Sweden	96	...
Canada	74 c/	...
Spain	92 c/ e/	92 c/
Denmark	100	...
Switzerland	80 d/	...
Norway	95 d/	92 c/
Austria	75 d/	...
Greece	90 c/	...

Source: See table 8.

a/ Countries ordered by value of total coffee imports in 1976-1977.
b/ 1967.
c/ Two firms.
d/ Three firms.
e/ 1970-1971.

/Table 12

Table 12

SOLUBLE COFFEE INDUSTRY: MARKET SHARES OF LEADING FIRMS, CONCENTRATION MEASURES, AND TNCs SHARES IN MAJOR DEVELOPED COUNTRIES (1968-1978) a/

Parent firm	Fed. Rep. Germany			France		Italy		Japan			Nether-lands		Spain		United Kigdom		
	1968	1974	1979	1968	1976	1968	1977	1968	1974	1978	1968	1976	1968	1978	1968	1970	1977-1978
Nestlé (Switzerland) rank	I	I	I	I	I	I	I	II	II	II	II	II	II	II	II	II	II
Mkt. share (%)	30	40	41	80	70	80	76	60	67	69	26	17	80	80	50	50	39
General Foods (USA): rank b/	IV	IV	II	II	II			I	I	I	(IV)	(IV)	I	I	I	I	I
Mkt. share (%)	15	14	22	10	10			30	21	20	(5)	(5)	12	12	27	26	23
Consolidated Foods: rank b/	...	...	...	...	III	...	...	...	...	...	(I)	I	...	...	...	...	...
(USA) Mkt. share (%)	...	...	...	...	5	...	...	...	...	...	(32)	40	...	...	...	...	...
Jacobs (SWI) rank	II	III	IV	...	-	...	...	...	...	...	-	-	...	...	...	...	...
Mkt. share (%)	19	18	16	...	-	...	...	...	...	...	-	-	...	...	...	...	...
Brooke-Bond-Liebig: rank	...	...	....	...	...	...	...	...	...	...	...	...	...	...	...	III	III
(UK) Mkt. share (%)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1	15
Allied Breweries: rank b/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	(III)	(III)	V
(UK) Mkt. share (%)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	(17)	(12)	6
DEK (FRG): rank	III	II	III	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mkt. share (%)	17	20	18	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Coca Cola (USA): rank	V	V	V	...	...	...	...	...	...	...	...	...	...	...	VII	VI	IV
Mkt.share (%)	7	-	-	...	...	...	...	...	...	...	...	...	...	...	-	-	12
Four-firm concentration ratio (%)	81		91	97	90	100	100	100	100	100	71	80	100	100	96	92	89
Share of leading foreign firm c/ (%)	73	73	81	90	85	80	76	90	88	89	31	80	92	92	77	76	74

Source: See table 8.

a/ Countries listed in order of value of coffee imports, 1976-1977.

b/ Market share of affiliates before acquisition by parent corporation indicated in parenthesis.

c/ Includes only leading firms in the above list.

/Table 13

Table 13

UNITED STATES: LEADING FIRM RANK AND MARKET SHARES, AND SOLUBLE COFFEE INDUSTRY CONCENTRATION (1968-1979)

Parent corporation	Years				
	1968	1970	1975	1978	1979
General Foods: rank	I	I	I	I	I
Mkt. share (%)	53.0	51.15	51.0	48.3	47.5
Nestlé: rank	II	II	II	II	II
Mkt. share (%)	14.0	23.0	29.5	32.1	32.5
Procter & Gamble: a/ rank	III	III	III	III	III
Mkt. share (%)	7.5	8.0	8.0	8.0	8.5
Standard Brands: rank	IV	IV	IV	IV	IV
Mkt. share (%)	4.0	3.2	1.9	2.0	2.0
Atalla Group b/ rank	V	VI	V		
Mkt. share (%)	(2.7)	(1.5)	(0.9)	0.3	0.2
Borden: rank	VI	V	VI	V	V
Mkt. share (%)	1.0	1.8	0.7	1.0	1.0
Four-firm sales concentration ratio	78.5	85.5	90.5	90.4	90.5
Leading foreign firm control d/ (%)	14.0	23.0	29.5	32.4	32.7

Source: See table 1.

a/ Acquired Folgers in 1967. Shares for previous years (in parentheses) are for acquired company.

b/ Acquired Hills Bros. (USA) in 1976. Shares in previous years (in parentheses) are for acquired company.

c/ Includes only leading firms in the above list.

/in table

in table 14 shows that the two leading TNCs were in the top four in each of these major markets. Overall, the leaders had about 120 foreign coffee processing affiliates in 1980, half of them in developed countries. Most of the 60 developing country affiliates of leaders are producing soluble coffee, with Nestlé alone accounting for 40% of total affiliate numbers and Brooke Bond (United Kingdom) and Lyons (United Kingdom) together accounting for another 20%.

Affiliates of TNCs in Brazil and Central America have substantial export operations while in Africa most operations are oriented to the local market. Brazil has fostered soluble coffee processing and exports in part through fiscal incentives. About half of its capacity is foreign owned, with all the leading soluble coffee producers present except for General Foods.

Table 14

SOLUBLE COFFEE INDUSTRY: POSITIONS AMONG FOUR TOP TNCs HELD BY INDUSTRY LEADERS IN TEN DEVELOPED COUNTRY MARKETS, 1960 AND 1978 a/

Leading firms	Market leader positions held	
	1960	1978
Nestlé (Switzerland)	9	10
General Foods (United States)	8	10
Procter and Gamble (United States)	0	2
Consolidated Foods (United States)	0	3
Standard Brands (United States)	1	3
Coca Cola (United States)	0	2
Leadership positions held	18	30
Total leadership positions	40	40

Source: See table 8.

a/ Countries included are: Canada, Federal Republic of Germany, France Italy, Japan, Netherlands, Spain, Switzerland, the United Kingdom and the United States.

4. Concentration in the retail food distribution in the main consumer markets

The major sales channels for coffee processors are retail food distribution systems. Table 15 provides summary data on the changing structure of the retail food distribution industry in some of the major developed market economies. Over the last two decades, food distribution industries in most developed countries have become increasingly large scale and concentrated. These concentrated buying industries present both opportunities and challenges to large scale food processors. Opportunities and differential advantages to the dominant coffee processors arise from dealing on a large scale and resulting reduced transaction costs and shared benefits from nationwide product promotion. At the same time, large buyers (retail chains, co-operatives, etc.) may exercise considerable negotiating capacity towards the dominant processors who seek to use their implicit market power. The retailers' scale and assured internal sales volume permit them to integrate backwards into processing, to promote house brands, and to threaten to withhold sales in important market segments. Since these oligopolistic confrontations are sometimes perceived as creating important opportunities for entry into the processing industry by, among others, enterprises from coffee producing countries, the following paragraphs examine this issue in depth.

Concentration in the food distribution industry varies considerably among developed countries, as shown in table 16. The transformation of retailing away from the small independent outlet occurred first in the United States during the 1940s and 1950s. By the early 1960s, the phenomenon had spread elsewhere with, for example, large scale distributors in the United Kingdom market controlling nearly half the market. With the exception of Italy. Western Europe had followed the same pattern. In all countries, private integrated retail chains have steadily increased their market shares, with super and hypermarkets experiencing the most rapid growth. Large scale units hold more than 60% of total food sales in the United States and the United Kingdom, where private chains predominate, as well as in the Federal Republic of Germany, Scandinavia and Switzerland, where co-operative and trade associations have strong positions (see again table 15). In many countries, independent retailers have formed voluntary or co-operative purchasing societies through which they can secure better terms and the economies of scale associated with large volume purchases.

/Table 15

Table 15

RETAIL FOOD DISTRIBUTION IN INDUSTRIALIZED COUNTRY MARKETS: SHARE OF THREE TYPES OF TRADING (1960-1978)

(Percentage of total sales)

Country		Type of trading		
		Integrated/ multiple retailing a/	Co-operative societies associated retailing b/	Independents c/
United States	1963	47.0	53.0	
	1974	57.0	43.0	
United Kingdom	1961	25.0	18.0	57.0
	1966	32.0	15.5	52.5
	1975	41.0	12.0	47.0
France	1969	26.5	15.5	58.0
	1974	30.0	17.5	52.5
Federal Republic of Germany	1971	22.5	73.5	4.0
Denmark	1971	10.5	45.5	44.0
Italy	1971	5.0	11.0	84.0
	1978	30.0		70.0
The Netherlands	1971	24.0	35.0	41.0
Switzerland	1971	47.0	44.0	13.0

Source: OECD, Impact of Multinational Enterprises, op. cit., 1979, Chapter V; "The Distributive Trade in the Common Market"; Agra alimentation, No. 456; P. Rohner "Detailhandel in der Schweiz", Zurich, 1973.

a/ Supermarkets and department stores, chain stores.
b/ Consumer co-operative and associated retailing organizations.
c/ Independent traditional retailing.

/The expansion

The expansion of multiple and integrated trade has led to increased overall concentration in the food retailing system. In recent years, the share of the top four firms in each of the major industrialized countries have continued to rise or have remained at very high levels. The largest increase in concentration has occurred in the United Kingdom where the four leading chains increased their share from 40% in 1969 to 60% in 1974 through both mergers and aggressive price competition (see again table 16). Concentration has increased similarly in France and Italy, although it is at a much lower level. Denmark, the Federal Republic of Germany and Scandinavia show high and stable concentration ratios, reflecting the strength of co-operative and associated societies. In the United States, the already high level of concentration continued to increase in the 1970s, although several food distribution leaders experienced serious financial difficulties.

Direct evidence of the mutuality of interests of large-scale retailers and coffee processors is not readily available. However, the cost advantages to retailers of dealing with only a few suppliers of high volume items, such as coffee, are apparent. Many retail chains in the United States actively promote well-known brand-name products in their own advertisements under cost-sharing arrangements with the processors. Coffee itself is frequently used by retailers as a loss leader that is advertised at a lower price than usual to attract customers.

Table 16

SELECTED DEVELOPED COUNTRIES: CONCENTRATION IN FOOD RETAIL DISTRIBUTION (1960-1970 AND 1973-1974)

Country	*Four-firm sales concentration ratio a/*	
	1969-1970 (%) total	1973-1974 (%) total
United States b/	50.5	52.0
Federal Republic of Germany	27.0	28.0
France	31.0	37.0
United Kingdom	40.0	60.0
Denmark	69.0	71.0

Source: European Economic Commission. Sixth Report on Competition Policy, 1977, p. 183. The Profit and Price Performance of Leading Food Chains, 1970-1974: Joint Economic Committee of the Congress, Washington, D.C., 1977.

a/ Food distribution trade excluding "independent" retailers.

b/ 1967 and 1975 average four-firm concentration ratio for the Standard Metropolitan Statistical Areas, United States.

/The advantages

The advantages to retailers of dealing with large-scale processors can be eroded if prices and margins are considered to be inadequate. If this occurs, the retailers' countervailing strategic options range from direct investment in production facilities to refusal to trade. The effectiveness of such counter strategies by larger retailers was illustrated in 1977 when two of the largest United Kingdom retail concerns, Tesco and the British Co-operative Wholesale Society challenged proposed price rises for soluble coffee by Nestlé and General Foods. The coffee TNCs leaders reportedly refused to lower their prices to levels consistent with the declines in world coffee prices. With price competition ranging in the United Kingdom distribution sector and soluble coffee often used as a loss leader, the retail concerns sought rebates from the processors. When their negotiations were unsuccessful, the two retail giants boycotted the processors, securing supplies from imports and independent domestic manufacturers. They also introduced their own house-brand products and sold them unchallenged in their respective retail networks. By increasing promotion and lowering prices, the retailers succeeded in gaining significant market shares.1/ By 1978, these strategies had lifted the sales of the Tesco retail chain to 10% of the retail soluble market. Eventually, Nestlé and General Foods altered their price quotations.2/

The coffee processors possess retaliatory options which deter the use of such withdrawal strategies by retailers. In particular, the diversified food TNCs can themselves threaten to withhold their other products from the retailers. In addition, the industry leaders against whom the withdrawal threat might be made are also among the principal suppliers for private brands.3/ Coca Cola

---

1/ Previously, the market share of private label brands of soluble coffee had declined from 35% in 1973 to 24% in 1977. ("A Study of the Cost Structure and Retail Prices of Selected Food Products in the United Kingdom", Commission of the European Economic Communities, Working Paper No. 12, Evolution of Concentration and Competition Series.)

2/ Tea and Coffee Trade Journal, February 1979, London.

3/ Private label processing is an activity with a lower return, and often constitutes a use for any excess capacity of the leaders.

/(Tenco, Ibenco),

(Tenco, Ibenco), Jacobs and Tchibo (DEK), Standard Brands and Nestlé are major private label suppliers, accounting for up to 80% of United States and European private label soluble processing, even though some firms from developing countries (especially Brazil) have expanded direct export sales of the product. Consequently, retailers may encounter serious difficulties with alternative coffee supplies if all relations with the leading firms are cut off. As a bargaining tool, therefore, a few of the larger retailing firms have chosen to maintain their own soluble coffee processing plants to ensure their private label supplies. The retailers with such operations include in the United States, A & P, Safeway Stores and Kroger Co.; in the Netherlands, Ahold, de Gruyter and Albert Heyn; in Austria, Julius Meine; in the United Kingdom, Tesco and the Wholesale Co-operative Society; in France, Carrefour and Casino; in Switzerland, Migros; in Sweden, Förbundet Kooperativa; and in Denmark, FDB.

Retailers have also been able, on occasion, to use the withdrawal strategy to block coffee market entry by diversified food processors. Until the early 1960s, the Danish food distributors succeeded in retaining almost full control of retail coffee sales, and excluded the competing products of the industry leaders. The retailers' advertising stressed "fresh ground coffee from the grocer" and promotions such as lotteries. When Unilever sought to introduce vacuum-packed branded coffee into the market, the distributors threatened to boycott all Unilever products. Eventually, an agreement was reached whereby Unilever's brand would be sold, but a passive (low advertising) sales policy would be followed. By the early 1970s, however, the grocers' resistance had fallen any they embarked on branded roast coffee marketing as well. By 1979, about 70% of Danish coffee was sold in the branded vaccum-packed form, with the large co-operative concern, FDB, accounting for about 20% of the market with its Cirkel Brand. Branded coffees marketed by transnational food processors held only about 20% of the market.1/

Established processors may also pursue strategies with retailers that restrict entry by new rivals. For a firm to use the major distribution channels either to penetrate a nationwide coffee product market or to retain its share

---

1/ The Evolution of Concentration and Prices in the Food and Beverages Industries for Denmark (Commission of the European Communities, Brussels, July 1978).

/requires not

requires not only large-scale processing or suppliers, but also considerable market entry and maintenance costs. Advertising and promotion expenditures by minors or new entrants need to be large enough to oblige distributores to alter their relationships with established firms. When Brooke Bond first attempted to launch its "Brazilian Blend" coffee in the United Kingdom market, the large distribution chains refused to carry the product, despite massive advertising campaigns and competitive pricing. The cited reason was their fear of retaliation by the established leaders. Brooke Bond was accepted by the major food distribution chains only afte large promotion expenditures, e.g. 125 000 pounds sterling advertising a week, 50 million coupons, advantageous margins, and very successful regional market tests. By 1978, Brooke Bond had built a 10% share of the United Kingdom soluble market.1/

Some of the larger specialist firms have set up their own networks of retail coffee shops to secure brand identification and protect their product market outlets (e.g., Jacobs, Tchibo, Eduscho in the Federal Republic of Germany, UCC in Japan, and Chock-Full-O'Nuts in the United States). These specialized shops serve coffee prepared as a beverage and sell roasted coffee in bean or ground form. In the Federal Republic of Germany, specialized retail outlets account for 35% of all roasted coffee sales, while grocery retailers account for 25% and integrated chains (supermarkets) for 29%.2/

Although the evidence is far from conclusive, the growth of concentrated food distribution industries appears to set some upper limits on the degree of concentration in coffee processing and, by extension, in other differentiated food product industries. Overall, the large retailers hold direct control over only 10-20% of soluble coffee sales i.e., private brands either processed in their own plants or by independent firms while specialized coffee processors, distributors and retail chains hold varying but sometimes significant parts of the roasted coffee markets. The extent to which the diversified processors are able to capture even larger shares of either product segment in major markets will be limited, among other things, by the unwillingness of the major distributors to be subject to the unchecked use of market power and by the profitability of coffee processing as an integrated part of their overall operation.

1/ Tea and Coffee Trade Journal, February 1978.

2/ Coffee in the Federal Republic of Germany, ICO, 19 October 1979, EB/1747/79.

II. STRATEGIES AND POLICIES OF THE MAIN ACTORS IN THE COFFEE WORLD MARKET

1. Expansion strategies of TNCs

The conclusion from the previous chapter was that the diversified, transnationally oriented leaders in the coffee industry have substantially increased their worldwide influence in the sector over the last two decades. The declining number of surviving coffee specialists have had to adapt their operations to the overall dominance of the diversified TNCs partly by increasing promotion expenditures and partly by focusing on special segments of the market. This section examines more in depth evidence regarding the strategies of both the diversified TNCs and the specialists in the coffee industry as these have affected competitive industry entry and levels of concentration in international markets. Three aspects of these strategies are reviewed: mergers and acquisitions, marketing practices and technology control.

a) Mergers and acquisitions

Although the TNCs leaders have sought to expand their shares of the coffee market through a variety of means, virtually all the major firms have been active in acquiring established coffee industry rivals. Acquisitions which facilitate entry to a national market may be expected to have somewhat different effects on national and global concentration levels from those which have the primary effect of reducing numbers of rivals in an established national market, and, for this reason, it is useful to distinguish between the two types of acquisition.

In the United States, the diversified roasted coffee leaders all established their initial positions through the acquisition of regionally important processors. In this manner, General Foods became a national coffee distributor in the 1930s, while Procter and Gamble, Standard Brands and Coca Cola bought major specialist firms and entered the national United States market in the 1960s. The larger European specialists (e.g., UFIMA in France, I/S Forende Kaffee in Denmark, Lavazza in Italy) followed similar strategies, consolidating their shares through mergers in the 1960s and early 1970s. At the same time, the national market leaders in the Federal Republic of Germany and the Netherlands, where markets were already significantly concentrated, increased their foreign operations by acquiring national leaders.

Douwe Egberts, Van Nelle (both subsequently acquired by diversified transnational corporations) and Jacobs began or significantly increased their participation in foreign markets during the 1960s and 1970s in this fashion.

The world industry leader, General Foods, started its transnational expansion in the early 1960s, focusing on Western Europe. It chose acquisition as its preferr form of entry into country markets, as it had previously to establish itself in the United States. The acquisition of P. Lemonnier in France and Coffee A.S. and Geluvi in Scandinavia provided strong entering positions in those two markets. In the late 1970s, three other United States-based diversified food TNCs -Standard Brands, Consolidated Foods and American Brands- entered the European coffee processing indust even though the latter two did not have significant coffee market positions in their home country. Their entry was through the acquisition of leading Dutch firms (Van Nelle, Douwe Egberts and Niemewyer respectively) which themselves already had other European affiliates. In 1979, General Foods reinforced its position by acquiring the leading European producer of decaffeinated coffee, Hag of the Federal Republic of Germany. Jacobs followed by acquiring another major producer of decaffeinated coffee Coffex SA of Switzerland, and has also expanded its roasted coffee operations in Canada, Belgium, France and Scandinavia through acquisitions.

In the United Kingdom, beverage-oriented transnationals (Allied Breweries, Associated British Foods, Brooke Bond and Cadbury-Schweppes) consolidated their operations by taking control of other leading firms in the beverage industry (Lyons, Twining, Liebig and Typhoo respectively) which had previously acquired large coffee processing specialists. However, these firms continued to face foreign-based industry leaders (Nestlé and General Foods) in their home market. Unilever, in this same period, virtually withdrew from the coffee industry in the United Kingdom, in which it had had a relatively modest stake.

As part of their growth strategies, some leaders have shown willingness to establish joint-ventures with governments or with other private firms in order to secure access to specific country markets. Competing leaders in the United Kingdom and the Federal Republic of Germany have also formed joint ventures among themselves for their foreign operations. Nestlé has chosen to engage in partnership with government entities in several countries, with arrangements that usually grant the plant a monopoly over the domestic market.

/In sum,

In sum the diversified transnationals have obtained a large part of their present leading position in the coffee industry through selective acquisitions of well-established national leaders, including previous competitors, in the larger country markets. These policies, in combination with their effective promotional activities and, to a lesser extent, their control of technologies, have diminished the number of effective rivals in the respective markets and have directly or indirectly increased the costs and risks of market entry to new rivals.

(b) Marketing modalities

Product branding and differentiation constitute the second strategic element used by firms seeking to gain or maintain high market shares. Although, in principle, all firms in the industry may promote their products, the ability to use the wide range of promotional techniques has been particularly well developed by the diversifie TNCs in the food industry. Leaders in the soluble coffee market have used advertising as a major element in their competitive strategies, and advertising expenditures for soluble coffee have been consistently higher than for roasted coffee. Nevertheless, since 1960 there has been a significant shift to higher promotion in the roasted coffee segment.

Specific coffee promotion budgets are seldom published at the firm level. However, available data show that the overall advertising-to-sales ratio for coffee ranges from 3 to 10% in major country markets. In the United Kingdom, the promotion and advertising costs of soluble coffee manufacturers averaged 10% of sales in 1976.1/ Advertising is concentrated among the larger firms. In the United States, expenditures by the four largest coffee producers accounted for three-quarters of the industry's mass media advertising expenditures in 1976. Media advertising by the four United States leaders represented 3.6% of total coffee sales in 1975, compared with 2.6% in 1967.2/

Trade press reports offer some information on the promotional costs associated with the introduction of new coffee brands. In launching Brim, an extender blend type of instant coffee,General foods spent 3 million pounds sterling in the United Kingdom

1/ Royal Price Commission, Coffee: Prices, Costs and Margins (United Kingdom, Report No. 23, 1977, London). Royalties paid by Nestlé and General Foods affiliates to their parent companies increased in the period 1974-1976 from 1.5% to 2.4% of industry sales, or in cash terms from 1.6 million to 4.3 million pounds sterling.

2/ See J. Connor, The United States Food and Tobacco Manufacturing Industries' Market Structure, Structural Change and Economic Performance (United States Department of Agriculture, Washington, D.C., March 1980 (Report 451)).

/in 1977,

in 1977, equivalent to about 6% of its United Kingdom soluble coffee sales revenue. Nestlé devoted a similar amount to start its "Elevensee" extender coffee product.1/ the introduction of a new "economy flaked" roasted coffee, Procter and Gamble spent US$ 13.1 million in measured media advertising during 1978, an estimated 9% advertising-to-sales ratio.2/ It reported expenditures of US$ 1.5 million per month in 1978 for its advertising campaign in the Eastern States. General Foods, which was competing in the same region, reportdely spent twice this amount in a counter-campaign.3/ Nevertheless, the intensive promotion attained a 4% share of the brande roasted coffee market for the new product by the end of 1978. Intensive advertising campaigns are also associated with attempts to expand market shares through mergers and acquisitions.

A study of acquisitions and mergers in the United States food sector reveals a doubling of advertising expenditures for the product lines of the new affiliates.4/

During the periods of sharp rises in bean prices (1973-1974 and 1976-1977), coffee advertising outlays were stagnant in the United States, and processing levels reportedly declined. In 1977, measured media coffee advertising expenditures by General Foods dropped by US$ 10 million, a 25% decline from 1976 levels.5/ In contrast, in the intense market-share battle in the United States in 1978-1979, when prices of green beans fell, some leaders doubled their advertising expenditures. However, this strong rivalry for market shares did not lead to a reduction in margin or profits. Processed product prices did not follow the price of green beans so that processors' margins rose and firms' net profits increased. Coffee processors gross profits per pound were almost double their historic levels.6/ According to one industry analyst, this situation was particularly pronounced for soluble products because there were only two major competitors.7/

1/ The new extender coffee product was introduced at the time of a sharp increase in coffee prices, and claimed 20% more cups per pound of coffee.

2/ Ibid.

3/ The New York Times, 28 January 1979.

4/ Russel Parker, "Concentration in the Food Industry: A Warning", The Executiv Vol. 4, No. 1, March 1978, Cornell University, Ithaca.

5/ "The 100 Top Advertisers", Advertising Age, 26 February 1978.

6/ Business Week, 1 October 1979.

7/ Article quoting R.J. Cummings of Loeb, Rhoedes, Hornblower, in New York Times, 17 January 1979.

/Promotion by

Promotion by the leading processors has also managed to overcome consumer resistance to new products arising from either different habits or tastes, or from higher costs. For instance, when Nestlé first attempted to exploit a lyophilized soluble coffee in Germany, it encountered stiff market resistance because the product bore little resemblance to the coffee typically consumed in that country. However, rather than change the technology, Nestlé decided that, with appropriate promotion, consumers could be persuaded to accept the product. The market was re-tested and a new strategy devised, based on the promotion of a "revolutionary new process". Public acceptance of the lyophilized coffee increased, with many consumers believing the product to be superior to normal roasted coffee.1/

In a similar fashion, Nestlé created a demand for its soluble coffee products in West Africa through intensive promotion efforts. With effective advertising campaigns, newly introduced items gradually became an integral part of local consumption patterns, substituting for other local foods that were part of the traditional diet.2/

Advertising efforts for higher margin soluble coffees are greater than for roasted coffee. Not only are attempts to introduce new products associated with aggressive advertising campaigns, but geographic diversification into new market areas, particularly when not done through acquisitions, is associated with very intensive mass media and retail promotion efforts. Penetration of new market segments may be done in conjunction with direct or indirect price wars, e.g., couponing, bonus sales to retailers, etc. Smaller regional processors who cannot match these costs over an extended period have been particularly affected.3/ In the United States, "predatory pricing" behaviour by the leaders (i.e., Procter and Gamble and General Foods) has been subject to a number of court injunctions.

In differentiated product oligopolies, such as the coffee industry, rivalry among leaders may be strong. Large advertising and promotional budgets are used to conquer distribution channels and to lure consumer demand from one branded product

---

1/ P. d'Antin, "The Nestlé product manager as demi-god", European Business, Spring 1971, pp. 44-49.

2/ J. Masini, et al., Multinationals and Development in Black Africa (European Centre for Study and Information on Multinational Corporations, Brussels, 1979).

3/ G. Willard Mueller, "Monopoly, Mergers and TV Advertising: New March to the Sea", Wage-Price Law and Economic Review, Vol. 3, No. 1, 1978, pp. 83-96.

/to another.

to another. Market shares can fluctuate, particularly with the introduction of a new product by competitors. The evidence seems clear, however, that the net effect of the types of price and non-price rivalry observed in the coffee sector has been to strengthen the market positions of the large established processors, rather than opening the industry to smaller scale entrants. This way the entry barriers for individual developing producer countries seem to be almost prohibitive.

(c) Innovation and technology control

Leading TNCs dominance in the industry is in part supported by their introduction of new products, which create or expand their growth opportunities in specific market segments, and by proprietary control of innovative processing technologies.

Most of the innovations in the coffee industry have been in soluble coffee manufacturing. Technical improvements have focused primarily on two areas: making the appearance and taste of soluble coffee similar to that of roasted coffee and, second, cutting manufacturing costs by reducing the use of higher-priced raw materials (by improving the extraction rates of the processes that convert green beans into soluble coffee, and by developing a wide range of coffee extenders, whereby coffee is replaced by other materials, including malt, barley, chicory, sugar and chemical substances).

In the production of soluble coffee, raw material requirements are less critical than for roast coffee, because soluble coffee processing neutralizes the acids responsible for the bitterness of lower grade coffee beans. Unlike roasted coffee, the taste of soluble coffee is not impaired by "lower quality" robusta coffee raw materials. In addition, robusta coffee tends to have a higher caffeine content than the higher quality arabica coffee, permitting higher overall extraction rates.1/ Soluble coffee processes themselves have been improved over the years, with the average extraction rate falling from more than 3.5 pounds of raw material to 1 pound of soluble product in the 1950s to less than 2.5 pounds in the mid-1970s.2/

Numerous process technologies have been introduced since Nestlé used its dried milk processing experience to produce the first soluble coffee by columnar percolation in the late 1930s. The early product contained about 50% added

---

1/ Cf. Marketing Accounts, April 1980, pp. 129-130. The extraction rate is the quantity of green beans required per pound of soluble coffee. See part I. 1. (a) above.

2/ Coffee Statistics, 1975, Pan American Coffee Association, New York.

/carbohydrates. The

carbohydrates. The next major process innovation, introduced by General Foods in t 1950s, yielded a spray-dried coffee product with better flavour retention and solubility. As a result, General Foods gained market shares from Nestlé, especially in the United States. Nestlé then partially abandoned the carbohydrate addition and produced a darker, less dusty agglomerate from a spray-drying process similar to tha of General Foods. In the late 1960s, Nestlé regained its technical lead by introducing freeze-dried coffee. In the early 1970s, improved extraction and agglomeration procedures and aroma enhancement brought other new products on to the market. Many of the new technologies in soluble coffee processing were developed (o acquired) and patented directly by the leading firms. After the initial Nestlé soluble patents in 1944, General Foods became extremely active in controlling proces and product developments.1/

Of some 290 coffee-related patents issued in Europe, Japan and North America from the mid-1960s to the early 1970s, General Foods held 113 and Nestlé 24. This situation contrasts with most other food processing lines where technologies are either widely diffused or controlled by equipment manufacturers and other non-food firms. The soluble coffee sector leaders thus appear to be in a good position to restrict rivals' access to cost-reducing or new product technologies, that is, to create additional barriers to industry entry, particularly for the developing producer countries.

In comparison with solubles, technological advance for roasted coffee has beer modest, concerned mostly with packaging, i.e., ground roasted coffee packing and vacu packing. A separate innovation has been the introduction of decaffeinated blends for both soluble and roasted coffee products. Consumption of decaffeinated coffee has increased markedly in recent years, in part because of the adverse health effects attributed to the caffeine content of regular coffee.2/ The growing importance of

---

1/ In 1968, General Foods was sued by Struthers Wells Corporation, an engineering and manufacturing company with expertise in crystallization technology, for failing to observe their 1964 agreement. Struthers, which had been granted patents for removal of wax residues and various freeze-dried coffee processes, filed patent infringement suits against General Foods. General Foods had also to settle two suits it had brought against Nestlé in France and Canada.

2/ See Chemical Marketing, 21 August 1978 and Science, November 1980.

decaffeinated coffee prompted two of the largest leaders (General Foods and Jacobs) to acquire leading European patent-holding specialists for that product, Hag of the Federal Republic of Germany and Coffex of Switzerland, respectively.

The sharp increase of coffee prices in the late 1970s provided strong incentives for processors to introduce raw material-saving products. Lines of coffee extender products were promoted and higher yielding extenders or "economy" blend roasted coffee products were launched on the market. By 1978, all major processors in the United States were marketing their own brands of extender-economy type of products.1/ These products claim to stretch the consumer's expenditure by decreasing the cost per cup. For instance, 13 ounce packages are advertised as yielding as many cups as 1 pound cans of regular ground coffee. In a period of high coffee prices, this new market segment appeared equally appealing to both roasters and consumers. Large promotion budgets were devoted to the positioning of these products regionally and then nationwide. By 1979, extenders and economy-type coffee products accounted for 8-10% of the consumer market in the United States, compared with less than 0.5% in 1973. Their market share was more significant in the United Kingdom (30%) and in France (20%). However, the drop in the price of regular coffee in early 1980 was reported to have reduced sales of these economy blends, and their advertising budgets declined.2/ This way the large TNCs reacted successfully to maintain or increase their benefits in different stages of the coffee production cycle.

Because new and more sophisticated products may be crucial in gaining market shares and forcing out rivals, the leading TNCs control of the patents for the equipment necessary for manufacturing has meant increased costs for potential rivals Both General Foods and Nestlé have sought to control new soluble processes either through the direct purchase of patents from process inventors or through the acquisition of the specialized firms holding the technologies.

1/ Cf. General Foods (Mellow Roast, Master Blend, Dividend Coffee); Procter and Gamble (flaked coffee); Hills Bros. (High Yield); Coca Cola (Buttermut Extra Measure, Maryland Club); Nestlé (Sunrise). General Foods spent over US$ 5 million in advertising Mellow Roast in 1977. "The Top 100 Advertisers", Advertising Age, February 1978.

2/ Advertising Age, 2 February 1980.

2. Policies of consumer country governments

The coffee market is subject to varying degrees of government intervention in different consumer countries. The trends in industry structure reflect, in some measure, the constraints and opportunities associated with these country-specific policies. Public policy in consumer countries has affected the strategies of the leading firms, and consequently market structure, in four main areas, namely import taxes and trade restrictions, pricing and marketing regulations, foreign investment and anti-trust measures, and restrictive trade and business practices. Of course, these factors influenced also the incomes of developing producer countries and the barriers to their eventual independent entry in the consumer markets.

(a) Import duties and special consumption taxes

Trade restrictions and internal taxation by consumer countries affect both final price to consumers and the competition faced by coffee from other beverages. Thus, the structure and weight of fiscal charges in importing countries have a direct effect on consumption and market opportunities. The existence of discriminatc rates according to the degree of processing or the origin of imported beans also affects trade flows and the investment strategies of processors seeking to penetrate foreign markets.

Until the 1950s, the United States, the Benelux countries and Norway did not impose import duties or special taxes on coffee. Most other countries had an *ad valorem* import duty of between 10 and 25%.1/ The Federal Republic of Germany, Finland, France and Italy also levied special consumption taxes equivalent to 50-80% of the import value of coffee, resulting in a total tax burden of about 100% of import value.2/ Custom duty schedules were made more uniform with the formation of the European Economic Community (EEC) and the European Free Trade Area (EFTA). Trade within these economic regions was exempted from import duties, although coffee imports from non-associated countries continued to be taxed. For soluble coffee, the latter levies were about 20% *ad valorem* for EEC countries and 10% for EFTA.

1/ However, industrial countries such as France, the United Kingdom and Spain usually granted import duty exemption or preferential treatment to imports from their former colonies.

2/ *Monthly Review of Agricultural Statistics*, Vol. 9, September 1960, Food and Agricultural Organization, Rome.

/However, by

However, by 1979, members of the EEC had eliminated duties on intra-community coffee trade and on imports from the African, Caribbean and Pacific (ACP) countries associated with the EEC under the Lomé Convention. This Convention also has an export earnings stabilization mechanism which benefits the associated countries substantially. The system known as STABEX, provides that, under certain conditions,[1] reductions in export earnings caused by fluctuations in the prices of certain commodities may be compensated for through donations or loans at very low interest.[2] Up to 1979, transfers on account of low coffee export earnings were minimal owing to the remunerative prices which prevailed in the market. Of a total of 350 million units of account assigned to the STABEX operations between 1975 and 1978, a total of 314 million were used but only 14.5 million for coffee.[3] It must be assumed that in recent years, owing to the sharp drop in the international prices of coffee, transfers under STABEX have increased significantly.

For imports of coffee from all other countries, including those of Latin America, duties vary in accordance with the type of coffee and its country of origin, with lower levies for countries included in the General System of Preferences. Rates for processed coffee from non-exempt countries are two to three times as high as those for green beans. A summary of the current rates of duty on coffee imported into the EEC is contained in table 17. Specific consumption taxes, however, remain at the discretion of individual countries, and those which levied them previously continue to do so.

Import duties and other taxes may be expected to affect market size and growth as well as processor entry, margins, etc., through their influence on firms' strategies and investment patterns. Most transnational expansion occurred after the EEC came into being. Also, countries without specific coffee taxes, e.g., Denmark, the Benelux countries, Switzerland and Sweden appeared particularly attractive to foreign investment. The differential tariff rates are also relevant for coffee exporting countries, since demand in the EEC is oriented toward the robus type coffee of ACP countries, which enjoy duty free access for both raw and processed coffee products.

1/ Under the Lomé Convention the exported commodity must represent at least 6.5% of the total exports of the country concerned and the reduction in earnings must be higher than 6.5% of the average earnings recorded in the past four years if the country is to enjoy the benefits of STABEX. Both these requirements are reduced to 2% in the cases of the 47 ACP relatively less developed or landlocked or island countries.

2/ The system is applied in the case of nearly all agricultural exports. For minerals there is a special system.

3/ See Leonardo Pineda-Serna, "Las exportaciones latinoamericanas de café hacia la CEE: pasado, presente y futuro", mimeographed document, Amsterdam.

/Table 17

Table 17

EUROPEAN COMMUNITY: RATES OF COFFEE CUSTOMS DUTIES (JULY 1979)

Form of coffee	Rate of customs duty (percentage of unit value)			
	Countries within the General System of Preferences (GSP)	Spain	Other countries	ACP countries
Green	5	0	7	0
Green and decaffeinated	10	0	13	0
Roasted	12	0	15	0
Roasted and decaffeinated	15	0	18	0
Soluble	9	7	18	0

Source: International Coffee Organization, February 1980.

On the other hand, this preference of coffee exported by African, Caribbean and Pacific countries discriminates against the exports originated in Latin American countries. Attention given by the leading processors to tariff considerations is reflected especially in the difficulties encountered by soluble coffee exporters from Brazil in entering the United States market.1/ In addition, the interests and patterns of international investments by the industry leaders seem to have important implications for developed countries' policies in negotiating international commodity agreements.2/

(b) Anti-monopoly legislation in the United States market

Expansion of large firms through acquisitions and mergers may be seen as a threat to the competitive performance of an industry at the national or regional level. Official restrictions on mergers can thus have a direct effect on corporate growth strategies, particularly those of the leading firms.

1/ See below.

2/ J.H. Short, American Business and Foreign Policy: Cases in Coffee and Cocoa Trade, Columbia University, New York, 1974. See part 3 (a) below in this chapter.

/In the

In the coffee processing industry, in the early 1960s, the United States Federal Trade Commission (FTC) ordered Procter and Gamble to sell within five years the Houston Coffee plant which it obtained as a result of the 1963 acquisition of J.A. Folgers and Co.1/ Divestiture was part of a settlement of an anti-trust suit which also required that Procter and Gamble obtain prior government approval of any acquisition in the household consumer field within seven years and of any interest in a coffee company within 10 years. For five years, the company had to refrain from conducting coffee promotion in conjunction with any of its other products and was not to accept any discount of rate reductions on coffee advertisements that resulted from advertising for its other products. Procter and Gamble was also not to discriminate in the selling price of coffee unless the price differences were justified by costs or a lower price was granted in order to meet an equally low price of a competitor.2/

More generally, the United States anti-trust measures have affected the merger and acquisition activity of the leaders, with industry responding to what it believes to be the law and enforcement policy. Horizontal merger activity has been deterred. However, in the case of coffee processing, the Cellar-Kefauver Act 3/ has not achieved its objectives of preventing anti-competitive increases in market concentration and of eroding concentration where it was already high. Concentration in the United States coffee industry has continued to increase over the years.4/ Greater dominance by a few leaders appears to have given them an opportunity to assert market power, and it is estimated that in 1975, wholesale coffee prices in the United States were between 17 and 19% above competitive levels, due to industry concentration.5/ For this reason, it is difficult to foresee that the United States anti-trust legislation and behaviour could help to enable the producer countries entry in that market.

1/ The plant was sold to CFS Continental Coffee in 1972.

2/ The Procter and Gamble Company, Moody's Industrial Manual, 1979, p. 2015

3/ In the United States, the basic anti-trust statute regulating merger activity is section 7 of the Clayton Act, as amended by the Cellar-Kefauver Act (1950) which is directed at "incipient" as well as established monopoly.

4/ For a detailed analysis of the non-price predatory incident in the United States coffee industry, see Willard F. Mueller "Monopoly, Mergers and TV Advertising: A New March to the Sea", Wage-Price Law and Economics Review, Vol. 3, No. 1, 1978, pp. 83-96.

5/ See, Ronald Parker and John Connor "Estimates of Consumer loss due to Monopoly in the US Food Manufacturing Industries", American Journal of Agricultural Economics, November 1979, pp. 626-639. See the following chapter (III).

/(e) Pricing

(c) Pricing and marketing regulations

In most consumer countries, coffee marketing has been subject to some form of public intervention. This has occurred particularly during periods of inflationary pressure, at times of sharp fluctuations of world prices, and when collusive behaviour by leaders has been suspected.1/ Measures adopted in the United States and several European countries have included price controls, price freezes, and procedure for the screening and approval of price rises proposed by firms for their coffee products. During the coffee price increases of the late 1970s, several European countries imposed restrictions on demand-fostering marketing efforts, often in conjunction with price controls. For example, France took measures to prohibit coff advertising and froze prices at the same time.2/

Under such conditions, the TNCs are in a better position to survive than are smaller processors and have sometimes chosen these occasions to expand their acquisitions. They may also choose to disengage from those markets that do not promise adequate returns. Following the 1977 French government measures, for examp Consolidated Foods (USA) sold its J. Vabre operations and abandoned the French market.

In addition to price controls, some governments have attempted to control "predatory marketing practices" by which smaller firms may be driven from the industry. The Robinson Patman Act in the United States is the clearest example of such regulation. The United States Federal Trade Commission charged in 1978 that General Foods engaged in predatory and below cost pricing, intensive advertising and promotion and other unfair trade practices that forced smaller firms out of the coffee business. General Foods' objective was to preserve its leading market share in the face of a campaign by Procter and Gamble.3/ General Foods has also been charged with fraud and certain other practices related to coffee marketing, includin misleading advertising.4/

1/ Cf., for instance, Economic Report on the Investigation of Coffee Prices, Federal Trade Commission, Washington, D.C., July 1954; Coffee Prices, Costs and Margins, Royal Price Commission, Report No. 29, London, July 1977.

2/ Tea and Coffee Trade Journal, 29 June and 10 July 1977.

3/ Advertising Age, 3 March 1980, pp. 3-78.

4/ Progressive Grocer, April 1977, p. 43.

/Other promotion

Other promotion techniques, such as cents-off coupons, have also been widely used by leaders in efforts to pre-empt access to the retail distribution networks.1/ In 1971, Procter and Gamble introduced its Folgers coffee in the northern United States with an intensive cents-off coupon campaign hoping to cut into the share held by General Foods. A regional leader, Indian Coffee Corporation, was reportedly forced to sell out to Wechsler Coffee Corporation in 1974.2/ The court ruled that Procter and Gamble's promotion to retailers constituted predatory pricing and that the sale of the Indian Coffee Corporation was due to Procter and Gamble's predatory pricing.3/

3. Joint policies of the producer countries governments and reactions of industrialized countries and TNCs

Since the 1940s, coffee-producing countries have engaged in various joint and collective activities to increase their foreign exchange earnings from coffee exports, to stabilize the world price of raw coffee in real terms and to increase their participation in final consumer markets. Most producer country efforts have been directed towards gaining or strengthening agreements with consumer countries, although attempts have also been made to control trade flows and improve the returned value of exports through direct entry into major consumer markets as traders and processors. However, in contrast with the increased degree of concentration in processing, the trend in production has been towards a greater dispersion of supply among a large number of exporting countries.4/ As a result, the number and effectiveness of the bargaining options for developing country sellers appear to have become more restricted.

The increasing diversity in the possible sources of supply open to processors, both in terms of origins and varieties, has generally improved the bargaining capabilities of the processing industry vis-à-vis suppliers. From the producer countries' point of view, the increase in the number of countries engaged in marketing the raw material has complicated efforts to co-ordinate supply and price policies. This issue is addressed in the following section.

1/ Cf., Cents-off Promotions in the Coffee Industry, Federal Trade Commission, 1966, op. cit.

2/ Samuel A. Smith, "The age of small business: advertising and the conglomerates", Anti-trust Law and Economics Review, 1979 (11), 4, pp. 27-40.

3/ Sales Management, 17 March 1980.

4/ See part I.1.(b) (i) above.

(a) *Intergovernmental arrangements*

A full analysis of the various intergovernmental arrangements affecting the market for raw coffee lies beyond the scope of this study.1/ However, the structure of the coffee industry is likely to be affected by these arrangements and the following paragraphs review the various coffee agreements from this perspective. Table 18 summarize the various international agreements relating to the production and marketing of coffee which have been negotiated over the last 50 years.

(i) First Latin American agreements 2/

The first coffee agreement, based on a system of quota distribution, was an inter-American agreement and was signed in Washington in 1940. It could not, however be applied beyond 1941 owing to the outbreak of the war and the adoption of price controls by the United States similar to those applied in the case of other commodities. After the war, there was a tendency for prices to rise, which held back the attempts to organize the international market until the end of the Korean War. During those years (1954-1958), prices began to drop, and the producer countries reached several agreements ("Caballeros Pact" of 1954, "Agreement of Mexico" of 1957 and Agreement of 1958), all of them inter-American agreements based on retention of the supply, either on a percentage basis or through the distribution of quotas. In 1959, a new agreement was signed, to which producers from other regions (at that time, represented by their respective colonial powers) adhered for the first time. As in the past, the Agreement of 1959 was based on the setting of price limits and export quota undertakings by country.

(ii) International agreements

In 1962, under United Nations auspices, the first International Coffee Agreement was negotiated in New York, on the basis of the following principles:

1/ For such an analysis, see International Coffee Agreement, International Coffee Organization, London, 1963; J. Short, op. cit.; Bart Fisher, The International Coffee Agreement: A Study in Coffee Diplomacy, New York, Praeger, 1972; L. Thomas Galloway, "The International Coffee Agreement", Journal of World Trade Law 7(3), May-June 1973; and Jere R. Behrman, "International Commodity Agreements", Overseas Development Council, Monograph No. 9, NIEO Series, October 1977, Washington, D.C.

2/ In connexion with this topic see FEDESARROLLO, La Economía Cafetera Colombiana, op. cit., and FEDECAFE, Política Cafetera Internacional, Bogotá, 1978, which contains the text of all the agreements which are mentioned here. (This section was taken from the CEPAL document entitled "El mercado mundial del café", International Trade and Development Division, 1982.)

/Table 18

Table 18

CHRONOLOGY OF INTERNATIONAL COFFEE MARKETING ACTIVITIES AND AGREEMENTS

Name of Agreement/ Organization	Participants	Purposes	Year initiated	Year terminated
Pan American Coffee Bureau	10 Latin American producer countries	Promotion, technical services	1937	1976
United States-Latin American Coffee Pact	USA, 14 Latin American producer countries	Orderly marketing, price setting	1940	1948
Agreement of Mexico	7 Latin American producer countries	Export regulation	1957	1958
Study Group on Coffee	USA, Latin American producer countries	Statistics, negotiations	1958	1958
Latin American Coffee Agreement	15 Latin American producer countries	Retention quotas on exports	1958	1959
Short-Term International Coffee Agreement	15 Latin American countries, Portugal, France (for French Community). Later jointed by 13 independent countries and United Kingdom (for West Africa)	Export quotas	1959	1963
Inter African Coffee Organization (IACO)	19 African producer countries	Collective action, promotion and technical advice	1960	-
African and Malagasy Coffee Organization (OAMCAF)	8 Francophone African countries	Negotiation with France, promotion	1960	-

/Table 18 (concl.)

Name of Agreement/ Organization	Participants	Purposes	Year initiated	Year terminated
International Coffee Agreement (International Coffee Organization ICO)	32 exporting and 24 importing countries in 1962	Variable export quotas: minimum export prices; enforcement system	1962	1968
International Coffee Agreement	41 exporting countries, 25 importing countries	Export quotas, price stabilization, diversification fund	1968	1972
World coffee	5 producer countries (Brazil, Costa Rica, Colombia, Ivory Coast, Angola)	Export quotas, price control	1973	-
Suaves Centrales S.A.	Latin American producer countries	Direct trading	1974	-
International Coffee Agreement (1976)	63 producer and consumer countries	Export quotas, price stabilization	1977	1981
"Bogotá Group"	8 Latin American producers	Direct trading	Sep. 1978	May 1980
"Panacafé Productores Asociadas"	8 Latin American producers	Direct trading	May 1980	Oct. 1980
International Coffee Agreement (1980)	ICO member countries	Export quotas, price stabilization	Oct. 1980	–

/- universal

- universal participation by both producer and consumer countries;
- establishment of price limits and assignment of export quotas established yearly and subject to readjustment during the year;
- other regulations designed to influence long-term coffee production and consumption trends, including a diversification fund and measures to promote consumption;
- liberalization of sales to non-signatory countries (new markets);
- creation of an international coffee organization (ICO) with headquarters in London, responsible for conducting the relevant technical studies and also for providing a forum in which countries could negotiate through the International Coffee Board.

In 1968, a second agreement was signed, in which stress was laid on the universality provided for in the first agreement and which was based on the same principles. In 1972 a period began which has become known as the "coffee diplomacy crisis". The United States vetoed a readjustment of the levels of the "trigger" prices 1/ requested by the producer countries because of the devaluation of the dollar and the increase in the world inflation rate. In October 1973 it was decided to suspend the application of all the clauses of the 1968 agreement, but to retain its administrative structures (ICO), as an organ for research and negotiation with a view to the possibility of renewing the international agreement.

In 1977 the third agreement came into force, in which the first two agreements were modified as follows:

- the quota system was retained, but it was decided that quotas would go into force only when prices fell below a certain level;
- it was agreed that as much as 30% of each exporting country's quota would depend on its accumulated inventory;
- the principle was established that the price limits should take the evolution of the international monetary situation into account;
- it was decreed obligatory to declare a deficit in the fulfilment of quota undertakings so that they could be distributed among other member countries;
- finally, the door was left open for the possibility of establishing a centralized international stockpile.

1/ I.e., prices below or above which quota increases or restrictions came into force.

/On the

On the other hand, all proposals for direct regulation of production and/or consumption were discarded.

Owing to the small supply and the consequent price rise in 1976/1978, the 1976 agreement was not put into practical application until producers and consumers reach an agreement in 1980 on a new price limit (since prices were far too low because of inflation) and on a new system for the quarterly distribution of quotas.1/

(iii) TNCs intervention

Although private traders and processors are not immediate participants in these intergovernmental arrangements, the leading TNCs have readily recognized interests i the conditions which are established. These interests are not often publically expressed, but have been studied by the trade press and by academics. The central concerns of the TNCs have included the level of "trigger prices" set under the agreement, the imposed taxes or subsidies provided by producer countries, the creati of reserve stocks and exemptions or escape from quota restrictions by exporting and consuming countries. In the 1976 negotiations on the renewal of the International Coffee Agreement (ICA), for example, the United States Coffee Trade Association actively lobbied the government to oppose creation of a coffee stockpile to be controlled by or through the ICO.2/ In earlier negotiations, the differential tax treatment Brazil had granted to soluble coffee exporters led United States-based competitors to oppose renewal of the pact. The exemption from import quotas granted to Japan in the 1962 agreement, on the other hand, permitted non-quota raw material imports at low prices and favoured substantial expansion of local soluble processing.3/

In the early period of the ICO, the export quotas included in the Agreement were not fully respected until the ICO issued official export certificates, mailed them to member countries in accordance with its quota allocations, and had importing countries then instruct their custom officials to refuse coffee imports that did not

---

1/ The price limits agreed to in 1980 were between US$ 1.15 and 1.55 a pound. In practice prices stabilized during the first half of 1981 at a level much closer to the bottom figure of the two indicated. New limits are to be negotiated when the International Agreement is renewed in September 1982.

2/ M.C. Jensen, "Coffee Groups Quietly Influence U.S. Price Pacts, House Unit Told", New York Times, 11 November 1977. Also J. Short, op. cit., chapters III, IV and V.

3/ "The Market for Soluble Coffee in Canada and Japan", International Trade Center, Geneva, 1971, pp. 36-37.

/bear the

bear the official stamps.1/ Prior to these actions, forged certificates and non-member countries were used by coffee processors to secure cheaper non-quota coffee supplies. In 1966, General Foods imported over 475 000 bags from Liberia with false certificates of origin, and 100 000 bags of Ivorian coffee from Morocco. To avoid Colombian export taxes, General Foods also imported 21 000 bags from non-coffee producing Aruba.2/

(iv) Effects of the agreements

There is much controversy concerning the practical effects of the Agreements. International prices, in constant terms, continued to fluctuate while the Agreements were in force and in general there was no upward trend in the longer term. A more accurate idea may be gained by comparing the historical situation with what might have happened in the absence of the Agreements. For this purpose, a number of quantitative models has been constructed.3/ These are in general alike in showing that the Agreements contributed to greater short-term stability in international coffee prices but that the gain received by the larger exporters (Brazil and Colombia) were not so large as those received by the smaller producers.4/ It is also agreed that the Agreements seem to have had no influence whatsoever on production and consumption levels or of prices in the long term. Attention is drawn to the following difficulties encountered by the Agreements:

- the large number of producer countries (46);
- the non-obligatory nature of some of the provisions of the Agreements and the possibility of twisting others;
- the inadequate system of monetary readjustment in the price limits;
- the objective difficulties due to certain basic economic factors (slow growth of consumption at world level, surplus supply and, conversely, certain drops in the supply due to frosts in Brazil, etc.);

1/ See Chayes, Ehrlich and Lowenfeld, International Legal Process, New York, 1968, Vol. 1, pp. 588-593; Hearings on International Coffee Agreements, Committee on Foreign Relations, 90th Congress, 2nd Session, 26 (1968), Washington, D.C.

2/ See C. Hines and B. Dinnam, Agribusiness in Africa (Earth Resources Research Bureau, June 1980).

3/ See in this connexion, "Beneficios del Convenio Internacional del Café", submitted to ICO by the Colombian delegation in 1972 and issued as a document of the Organization and FEDESARROLLO, op.cit., chapter XV.

4/ For Brazil, in particular, it is calculated in the sources indicated that participation in the cost of the agreements was nearly three times as high as its gains.

/- divergent

- divergent interests of consumer and producer countries, which make it impossible to reach significant and operational agreements on the most controversial points;
- the fact that it has still not been possible to reach an agreement on the creation of centrally monitored buffer stocks.

In conclusion, it might be pointed out that the experience with the international agreements has not been very positive but that as things now stand, they are considered by the producer countries to be the only viable way to protect prices at international level.1/

(b) Unilateral policies of consumer countries

(i) In the world market control

Since the late 1930s, various exporting countries have joined in collective efforts at supply control and price maintenance outside the framework of future international coffee agreements.2/ The most recent concerted actions have involved combinations of voluntary restraints on supply and direct intervention on the world trading markets. In 1974, the decision by several producer countries to participate jointly in coffee marketing led to the setting up of Suaves Centrales S.A. by Latin American producers. The group bought and sold coffee on the major exchanges in an effort to support prices of mild arabica coffee beans and to assist financing of market withholdings. The Inter-African Coffee Organization (IACO) set up a parallel financial institution. Venezuela and Saudi Arabia agreed to provide the financial backing that had been lacking in similar efforts previously.3/

These co-operative ventures encountered resistance from both consumer country governments and the leading coffee firms. In 1978, the Bogotá Group was formed by eight Latin American producer countries 4/ after international negotiations within ICO proved unsuccessful. The undertaking sought to co-ordinate producer country sales policies by voluntary export restraints and to finance (with a joint capital

---

1/ Attention should also be drawn to the possibility that in future the International Coffee Agreement might become part of the Integrated Programme for Commodities administered within UNCTAD.

2/ See previous point III 3.(a) (i) of this chapter and Gonzalo Martner, Producers-Exporter Associations of Developing Countries (IFDA, Geneva, 1980).

3/ See Recent Trends in Some Primary Commodity Markets (E/CEPAL/L.122, 20 August 1975).

4/ Brazil, Colombia, Mexico, Venezuela, Costa Rica, El Salvador, Honduras and Guatemala.

/of US$ 280

of US$ 280 million) trading interventions in the major exchanges in order to maintain prices within the range of US$ 1.28-US$ 1.74 (seeking an average quotation of US$ 1.51 per pound). With the Brazil supply down that year, the Executive Board set a range of US$ 1.80 to US$ 2.20 that held throughout 1979. The Bogotá Group began to operate directly on the New York and London futures markets, buying and selling short- and long-term contracts and requiring "physical delivery" of the coffee bought in the markets. Despite exports of over 62 million bags of coffee in 1979 (compared with an average of less than 55 million bags in each of the five previous years), the Group was able to fend off declining prices to an extent which surpassed expectations. However, their activities generated mounting opposition from importing countries, in particular from the United States where the TNCs were alarmed by what they called "artificially boosted prices". Companies registered on the New York and London Exchanges that had been placing orders for the Bogotá Group were threatened with a boycott from future trading in the United States if they continued such operations.1/ In addition, the United States Commodity Futures Trading Commission brought suit against the State-owned PETROBRAS Comercio Internacional of Brazil (INTERBRAS) for buying a sizeable amount of coffee contracts, allegedly to boost prices. Finally, the New York Exchange decided in November 1979 that coffee trading would be placed in liquidation, and that the margins required to keep positions open would be substantially increased. With only existing contracts qualifying for trading, the market was effectively closed to new operations for two months. In this period, coffee prices fell from US$ 2.00 to US$ 1.60 a pound, imposing severe losses on the Bogotá Group.

The Latin American producer countries met early in 1980 in Panama and decided to create a new company on the world coffee market, Panacafé S.A., with capital of US$ 500 million. Panacafé took over the role of the Bogotá Group and comprised the same eight member governments. Colombia and Brazil each contributed 32% of the total share holdings, Mexico, Venezuela and Guatemala 8% each, and Costa Rica, El Salvador and Honduras 4% each.2/ Operations began in June 1980, but during the October 1980 ICA negotiations, the United States and other consumer countries insisted that Panacafé should be dismantled as a condition of their willingness to revive the Agreement.3/

1/ Latin American Commodities Report, January 1980, CR-80-01 and "Latin Coffee Group fends off world market's shrinking prices", Latin American Times, September 1960, p. 36.

2/ See Latin American Commodities Report, CR-80-09, CR-80-10 and CR-80-13.

3/ Financial Times, 4 October 1980; Latin American Commodities Report, CR-80-23, October 1980.

/(ii) In

(ii) In coffee processing and distribution

Efforts by producer countries to market processed coffee directly in consumer countries, through exports or the purchase of local enterprises, may expect challenges by industry leaders. The specific obstacles to downstream entry stem both from the consumer countries' tariff protection against processed forms of coffee, difficulties in gaining access to distribution channels (e.g., large retail concerns) and defensive responses from brand coffee leaders.

Processors have not been uniformly successful in limiting the entry of minor or new firms into major market segments. Nonetheless, the bargaining position of the leading processors vis-à-vis even the larger food marketing firms is strong. The latter firms would not be expected to consistently confront dominant industry TNCs unless the expected gains are substantial.1/

The larger roasters obtain a substantial proportion of their coffee supplies from direct purchase agreements with producer countries, outside the major commodity trade exchanges. From the producer country viewpoint, these supply contracts are intended to attract long-term customer loyalty and are addressed particularly to the larger processors. Such special arrangements with large volume buyers include provisions for price rebates, guarantees on maximum prices or "best offer" conditions, tax exemptions and assured access and delivery of raw materials.2/ These arrangements may be expected to undermine potential entry and competition by outside firms, since larger established leaders stand to benefit most from lower cost raw materials. Indiscriminate use of special incentives to larger roasters may thus weaken the relative bargaining position of producer countries and tend to reinforce the market dominance of the larger processors.

The processors' strong market position is further buttressed by their influence with home country governments. For example, in the mid-1970s, United States soluble coffee processors, led by General Foods and Nestlé and acting through the National Coffee Association, gained official support to restrict imports and increase duties

---

1/ See Report on Buying Power, Federal Trade Commission, Washington, D.C., Chapter I (DA 01, RBP/WP 13/24).

2/ See, for instance, "Brazil set 1981 export terms", Latin American Commodities Report, CR-80-23, 21 November 1980, also CT-80-05. "Colombia: changes in coffee taxes and prices", Latin American Commodities Report, CR-80-20, 10 October 1980; also CR-80-10.

/on soluble

on soluble coffee supplies from Brazil.1/ The processors sought to reverse the advantage that lower cost Brazilian imports had given to private label traders and prevent their further expansion. General Foods pressured the United States Government, even after Nestlé and the coffee trade group withdrew support for stronger measures against Brazilian soluble imports, and eventually won an agreement with the Brazilian Government to export from Brazil tax-free to the United States an amount of green coffee which was equivalent to the amount of instant coffee exported from that country. The tax-free coffee imports were shared among United States firms on the basis of their proportion of domestic instant coffee production, with General Foods obtaining over 50% of the allocation.2/

The producer countries have also been unsuccessful in penetrating the major consumer country markets through the establishment of affiliates in those countries. The experience of the Brazilian Atalla Group in entering the United States coffee market contrasts with the apparent success of the diversified food TNCs when they pursued similar policies in Europe. Through its acquisition in 1976 of Hills Brothers, a specialized regional firm in the United States, Copersucar of the Atalla Group sought to penetrate directly the major consumer market for Brazilian coffee. However, the market shares of the new United States affiliate fell steadily in the four years following acquisition, and it now holds less than 4% of the United States market.

Overall, developing country processors have achieved only a minor role in coffee trade and marketing in the major consumer countries, with most of their low-priced bulk commodity sales made to retailers for house brands and/or private labels. In addition, a significant share of soluble coffee trade is intra-firm, i.e., between affiliates. Attempts by private firms from developing countries to enter developed country markets through acquisitions have been limited both in number and in the results achieved, as illustrated by the acquisition of Hills Brothers by the Atalla Group cited above. However, direct contact with large retail chains and other distribution channels that would use their products appear not to have been fully explored.

1/ Brazilian exports share in the United States soluble market had grown from 1% in 1965 to about 14% in 1969, mostly benefitting house-brand distribution. See J. Short, 1974, op. cit., chapter V.

2/ See J. Short, op. cit., 1974, chapter IV.

/The trend

The trend towards soluble coffee, implying increased processing of coffee beans, may hinder co-operative efforts to promote roasted coffee consumption in potential markets. A special ICO meeting called to examine ways of using ICO funds for promotional efforts in the United Kingdom could not agree on a generic promotion programme. Under its rules, ICO can provide only 50% of promotion costs and the United Kingdom processors were reluctant to provide their contribution. The British market is dominated by instant coffee and advertising focuses on persuading consumers that one brand is significantly better than and different from the others. Generic advertising undertaken partly at the expense of the processors would contradict this practice so that ICO-funded promotion seems to be ruled out in that country.1/

Producer countries have often relied on investment incentives to attract established world leaders in their domestic processing industry.2/ Such policies have opened opportunities for the TNCs to reinforce their global market position in the processing industry. When transnational affiliates become an established part of the local processing industry, efforts to improve domestic bargaining position is diminished by lack of competition.3/

Transnational corporation affiliates active in the soluble coffee market in producer countries succeed in generating greater value-added and returned value than in the roasted coffee industry. In Peru, Nestlé is the sole locally-based soluble coffee processing operator. It absorbed about 20% of domestic industry inputs in 1979, but generated 61% of the value of total industry output and 80% of its value-added.4/ In Mexico, the two transnational corporation affiliates, Nestlé and General Foods, received 17% of domestic industry raw material inputs, but generated 52% of the coffee sector value-added in 1970. Their rate of return

---

1/ R. Mooney, "British Recovery in United Kingdom instant coffee sales", Financial Times, 9 April 1979.

2/ See, for instance, J. Masini and L. Lanzarotti, 1979, op. cit.

3/ Cf., for instance, "Mexico: Warning accompanies call for coffee reforms", Latin American Commodities Report, 10 October 1980, CR-80-20.

4/ See L.F. Arroyo and F.G. Vigil, "Mapa General del Complejo del Café en Perú" (Cuadernos, DESCO, June 1979, Lima).

/on invested

on invested capital amounted to 190%, compared with 75% for national roasters.1/ This difference persisted throughout the 1970s.2/ Similarly, value-added per unit of invested capital was between two and three times higher for soluble coffee transnational corporation affiliates in Peru and Mexico than for national roasters.3/

1/ See A.L. Domike and G. Ramírez, "Agroindustries in Mexico", CIDE, Mexico, 1976.

2/ See "Inserción del SAM en el Sistema Alimentario Internacional", Oficina de Asesores del Presidente, May 1980, Mexico.

3/ The ratio of valuable added to capital investments for transnational corporation soluble processors was respectively 259% and 205% in Peru and Mexico versus 112% and 75% for the national roasters (Arroyo and Vigil, op. cit., SAM, 1980, op. cit.).

III. INTERNATIONAL PRICES AND THE DISTRIBUTION OF GAINS 1/

International coffee price trends are of course decisive for the income of the industry in general and its leading actors (TNCs and other processing and marketing firms and the governments of the coffee consumer and producer countries), in particular. In this chapter the main factors affecting these phenomena will be reviewed.

1. International prices and factors influencing their evolution

Table 19 concerns the price trends of the four leading types of green coffee over the past three decades. The first figures of note are those relating to the marked and constant price fluctuations from year to year, which in time show up in the monthly quotations as well.2/ The instability of the prices has a negative effect on the income of the industry and, in particular, on the individual shares of those producer countries which lack the economic capacity and instruments for income stabilization (available to the large diversified transnational corporations and the governments of industrialized consumer countries).

The long-term trend, reflected in table 19 in five-year averages of constant 1980 prices, is also negative for the producer countries. By comparison with the first half of the 1950s, the prices of Colombian coffee fell, on average, by 10% in the last five years of that decade and by close to an additional 30% in the first five years of the 1960s, remaining at slightly over 60% of the 1950-1954 levels until the second half of the 1970s when they rose to over 90% of the base levels, thanks to the extraordinary price boom in the period 1976-1978.3/ In subsequent years, the prices again fell to the levels prior to the boom.

1/ Chapters III-V are an edited version of the relevant parts of the CEPAL study of 1982 entitled "América Latina y el mercado mundial del café", adapted for the purposes of the interregional project.

2/ It should, however, be pointed out that the price fluctuations in the case of coffee are less violent than in the case of many other commodities of great importance to Latin America, such as copper and sugar. According to an index drawn up by the World Bank (based on the calculation of the standard deviation in respect of a five-year mobile average), coffee was twenty-first on a list of commodities by order of the degree of instability of their prices. See World Bank, "Price Prospects for Major Primary Commodities", Washington, 1977.

3/ The maximum price of US$ 8.20 (at 1980 prices) reached in 1977 was 2.2 times higher than the average price in the period 1960-1974 (see table 19).

/Table 19

Table 19

NEW YORK MARKET: CURRENT AND CONSTANT GREEN COFFEE PRICES (1950-1981)

(In US$ cents per kg, spot price)

	MAMS a/			Guatemalan b/			Brazilian c/			Angolan d/		
	US$ current prices	At 1980 constant prices	Index	US$ current prices	At 1980 constant prices	Index	US$ current prices	At 1980 constant prices	Index	US$ current prices	At 1980 constant prices	Index
	117.5	570.4		110.5	536.4		111.3	540.3		91.5	444.2	
	129.4	526.0		129.2	525.2		119.5	485.8		104.9	426.4	
	125.7	498.8		125.7	498.8		119.1	472.6		101.9	404.4	
	131.8	549.2		125.2	521.7		127.7	532.1		108.5	452.1	
	176.4	747.5		170.2	721.2		173.5	735.2		138.9	588.6	
ge 1950-1954	136.2	578.4	100.0	132.2	560.7	100.0	130.2	553.2	100.0	109.1	463.1	100.0
	142.4	598.3		132.9	553.8		125.9	524.6		99.7	415.4	
	163.1	663.0		151.0	613.8		128.1	520.7		84.7	344.3	
	140.9	548.3		138.7	539.7		125.4	487.9		88.6	344.8	
	115.3	425.5		109.8	405.2		106.7	393.7		88.6	326.9	
	99.7	386.4		93.9	364.0		81.6	316.3		67.5	261.6	
ge 1955-1959	132.3	523.3	90.5	98.7	495.3	88.3	113.5	448.6	81.1	85.8	338.6	73.1
	99.0	375.0		91.1	345.1		80.7	305.7		55.8	211.4	
	96.1	362.6		82.9	312.8		79.4	299.6		43.9	165.7	
	90.0	343.5		78.9	301.2		75.0	286.3		47.6	181.7	
	87.3	330.7		78.0	295.5		75.2	284.9		63.3	239.8	
	107.6	401.5		104.1	388.4		103.0	384.3		80.3	299.6	
ge 1960-1964	96.0	362.7	62.7	87.0	328.6	58.6	82.7	312.2	56.4	58.2	219.6	47.4
	106.9	388.7		100.3	364.7		98.6	358.6		69.7	253.5	
	104.5	371.9		93.3	332.0		90.0	320.3		75.0	266.9	
	92.4	324.2		86.4	303.2		83.3	292.3		74.5	261.4	
	93.9	351.7		86.9	325.5		82.5	309.0		75.6	283.2	
	99.2	370.2		88.4	329.9		90.0	335.8		74.1	276.5	
ge 1965-1969	99.4	361.3	62.5	91.1	331.1	59.1	88.9	323.2	58.4	73.8	268.3	57.9
	124.3	418.5		114.4	385.2		120.4	405.4		92.6	311.8	
	108.7	338.6		100.3	312.5		98.8	307.8		94.4	294.1	
	125.0	354.1		110.2	312.2		112.4	318.4		99.0	280.5	
	160.3	380.8		136.7	324.7		152.6	362.5		110.0	261.3	
	171.5	328.5		145.9	279.5		161.7	309.8		129.4	247.9	
age 1970-1974	138.0	364.1	62.9	121.5	322.8	57.6	129.2	340.8	61.6	85.3	279.1	60.3
	180.3	301.5		144.0	240.8		184.9	309.2		134.6	225.1	
	347.9	572.2		315.7	519.2		329.5	541.9		281.4	462.8	
	538.6	816.1		530.9	804.4		679.0	1 028.8		493.4	747.6	
	405.9	519.7		365.7	468.3		319.8E	409.5		295.6E	378.5	
	407.3	455.1		382.9	427.8		388.5	434.1		363.8	406.5	
age 1975-1979	376.0	532.9	92.1	347.8	492.1	87.8	380.4	544.7	98.5	313.8	444.1	95.9
	417.6	417.6		342.6	342.6		451.5	451.5		332.0	332.0	
ary-June 1981	378.9			280.0			421.2			249.8		

ce: World Bank, "Commodity Trade and Price Trends", Washington, August 1981.

olombian coffees produced in Manizales, Armenia and Medellín.
950, washed "good" grade; 1951 onwards, washed "Prime" grade.
antos 4; 1973 onwards ICO coffee quotations for unwashed arabica.
mbriz 2AA (robusta); 1973 onwards, ICO robusta average (Angolan calculations)"Ambriz" 2AA", Ivory Coast ("Superior")
nd Uganda (Native Standard).

/The prices

The prices of other types of coffee (other Central American and Brazilian milds and African and Pacific robusta) followed a trend similar to that in the Colombian experience, with one important difference: Colombian mild, being a high quality coffee, always had a comparative advantage in terms of unit prices over other types of coffee, especially African robusta. In the 1950-1954 average, the final difference was US$ 1.26 (measured in 1980 constant prices) i.e., 28% in favour of Colombia. This comparative advantage increased until the first half of the 1960s when the average prices of Colombian coffee fell, by 37.5% in comparison with 1950-1954, while the drop in the price of African robusta at the same time was much greater (52.5%). Consequently, in the same five-year period (1960-1964), the comparative advantage of Colombian coffee increased to US$ 1.43, with the result that one kg of that coffee was 65% more expensive than one kg of African robusta (by comparison with the 28% difference in 1950-1954). In the period following the first five years of the 1960s, the former balance was re-established, the prices of robusta showing a greater improvement than those of the Colombian milds (the difference was one of 26% in 1980, i.e., similar to the 28% difference in 1950-1954). It seems obvious that the relative drop in the price of robusta coffee in the second half of the 1950s and first half of the 1960s is related to the progress made by soluble coffee during this period.

With regard to the main factors which influence the formation of international coffee prices, it is rather difficult to establish a hierarchy for them. Some of them may be noted, however, but with no attempt to be exhaustive.

The basic economic conditions, of both the supply and the demand, with their respective elasticities constitute an important, but by no means the only, factor. To this are added the prospective elements, including the catalytic effects had by the frosts in Brazil, for example; the drop or, conversely, the rise, in world inventories, etc.

The activity of the International Coffee Agreement, which has deliberately tried to keep prices within a predetermined boundary based on negotiations between producer and consumer countries, is another element which may influence price trends. The experience of price trends in the past two decades, considered above, has, however, shown that even in periods when the quota mechanism provided for by the Agreement was fully operative, its effectiveness in keeping prices within the desired boundaries has been relatively limited.1/

1/ See part II, B.(a) (ii) of this study.

/In addition

In addition, attention should be drawn to the influence of speculative activity in the London and New York exchanges and, in general, in the futures markets.1/ On the other hand, the marketing facilities of the coffee processing and marketing firms in the consumer countries and, in particular, those employed by the transnational corporations, have already been considered.2/ The diversified and oligopolistic nature of the latter enables them to devote a relatively small proportion of their activities to coffee and to sacrifice their coffee profits in the short term, accepting, for example, a temporary reduction in sales prices to further their longer-term interests.

We shall now look at the activities of the London and New York Coffee Exchanges and their speculative aspects, which also have an influence on the formation of international prices.

2. The London and New York Coffee Exchanges

The importance of these exchanges lies in the fact that the prices for the rest of the market are determined on the basis of their transactions. In actual fact, however, a highly variable, but relatively small proportion of the world coffee trade is actually transacted in the Coffee Exchanges. As may well be imagined, the function of insuring the uniformity of prices is highly important in that it lessens the possibilities for speculation by eliminating chances for arbitration among the different markets.

The London Exchange ("London Terminal Market") is devoted almost exclusively to the African "robusta" varieties, and their prices are expressed in pound sterling per ton. Since 1973, "washed arabica" coffee has also been dealt with in London, although in relatively small quantities, its price being quoted in US cents per pound.

In addition to the London Exchange, the Le Havre market is of great practical importance for robusta coffee, although its quotations are not used for the construction of the ICO price series.

The New York Exchange ("New York Coffee and Sugar Exchange Inc."), is entirely devoted to "arabica" types of coffee, washed and unwashed from both America (the

---

1/ See the following section.
2/ See part II 1. b, above.

/large majority

large majority) and other parts of the world (East Africa, Asia, Oceania). In this market, the prices are expressed in US cents per pound.1/

Arabica coffees are also quoted in Hamburg and Bremen as they are in Le Havre. The corresponding series, which the German authorities publish regularly, are not however, strictly comparable with those published in New York because, among other things, they are quoted in values FOB.

In practice there are other quotations in addition to those referred to. Even though they differ slightly, however, the series published by ICO, based on the London and New York Exchanges, may be considered to be a source which faithfully reflects the price trends at world level.

3. Futures markets

In both the London and the New York Exchanges, and in the other markets, ("futures" or "forward markets") also operate. These are markets based on transactions which are not in progress at the time the contract is signed but which take place sometime later. Future positions (for a maximum of 14 months in London and 18 months in New York) are negotiated in the various exchanges in general without requiring the physical delivery to be effected once the deadline has been reached,2/ and conducted merely for purposes of speculation or, in the case of "hedging", as a defence against the possibilities of future drops or rises in prices.

Only during the period of operation of the "Bogotá Group", an association of Latin American producer countries created for the explicit purpose of driving coffee prices up through open intervention in the market, was it required (by the Group) that the positions reached in the futures markets should correspond to actual delivery effected on the dates indicated. When the Bogotá Group ceased to function, there was a return to the former situation in this connexion.3/

1/ The fact that London specializes in "robusta" and New York in "arabica" is based mostly on tradition, but other factors also come into play, such as market preferences and even the facility of communication between New York and Latin America and London and Africa, due, among other things, to the fact that there are no time differences.

2/ In 1976 physical delivery was required in respect of only 0.8% of the futures contracts stipulated in the New York Exchange. In addition, the volume of coffee traded in futures contracts in London in 1978 amounted to over 33 times that total coffee actually imported by the United Kingdom. (See for example, K.L. Carlson and O. Thvilum "The World Coffee Economy and the Price of Coffee", mimeographed doctoral thesis, Arhus, 1979.)

3/ See part II.3.(b), above.

/"Hedging" may

"Hedging" may be defined, from the seller's point of view, as the act of anticipating future physical sales, as a defence against a possible drop in the price of the commodity when the real sale takes place or, from the buyer's point of view, as the purchase of futures contracts as a defence against the occurrence of the opposite phenomenon, i.e., a price rise.

This practice is very common in the international trade in primary commodities, and in coffee, in particular, since it has been shown that both importers and exporters prefer to take cover against the risks inherent in price fluctuations rather than to count on the possibility of occasional gain. This does not of course apply to speculative operations.

Although it is not possible to come to a definitive conclusion as to the long term effect of "hedging" practices on international prices, it should be emphasized that this kind of operation constitutes an effective mechanism for defending commercial operators against short-term fluctuations.

The transactions in the futures markets, in both New York and London, are subject to certain limitations -minimum lots, months in which the market operates, origin of the commodity, ceilings on daily fluctuations (in the case of the New York Exchange), etc.1/ The New York market, in particular, the futures markets, are subject to increasing vigilance by the Commodity Futures Trading Commission (CFTC), partly because of the distortions due to speculation which have come to light in other primary commodities markets. In the case of coffee, it was the work of the Bogotá Group which resulted, in 1979/1980, in severe restrictions in the New York futures market and, at the same time, some revitalization of the London Market for arabica coffees.

Before being hamstrung by these restrictions, the futures markets had grown very rapidly. In the London Exchange, for example, total transactions rose from 153 000 5-ton lots in 1973 to 660 000 in 1976, while the growth in value was still more spectacular -344 million pounds sterling in 1973 as compared to 5 250 million in 1976.2/ This growth is due, among other things, to the increasing acuteness of

1/ For a more exhaustive consideration of the futures markets, see Edward Rosen: "The 'C' Market-An Expanding Tool for our Industry", in Coffee Annual 1979, New York, 1980.

2/ United Kingdom Price Commission: "Coffee: Prices, Costs and Margins", London, 1977. In the United States, on the other hand, the volume of coffee traded in the futures markets was 316 500 lots of 30 000 pounds in the fiscal year 1975-1976 valued at US$ 4 728 million. See Commodity Futures Trading Commission, "Annual Report, 1976", Wahington, 1977.

/the problems

the problems of inflation during this period, which caused investors to take refuge in primary commodities.

A study conducted by the Government of the United Kingdom points out, in connexion with the futures markets, that there is no way of telling to what point speculation may have influenced international prices. A report prepared by the Commodities Futures Trading Commission of the United States arrives at the same conclusions.1/

4. The margins of the final price of coffe and the distribution of gains

As indicated at the beginning of this chapter, international coffee price trends are largely responsible for the income of the industry and the entities which help to develop it. As in the industries related to other primary commodities for export,2/ the distribution of the gains derived from the production, processing and distribution of coffee is noticeably biased in favour of the industrialized countries where consumption as well as processing and marketing (primarily by United States and European TNCs) beforehand is concentrated. In view of the high barriers erected against the earnings of the coffee producing countries in the markets of the consumer countries, the participation of the former in the gains of the industry depends primarily on the international price trends for green coffee exported by them to the consumer centres.3/ Finally, it is also seen from the foregoing analysis that the influence had by the producers on the formation of prices through the various kinds of international agreements had been weak in a market dominated primarily by the interests of the consumer countries and their TNCs. This is also confirmed by the well known fact that the price rises or booms for coffee producers in the past 30 years (which moreover, are rare and transitory)4/ are not due to individual policies but rather to objective causes and chance (especially the frosts in the coffe plantations of Brazil).

1/ Ibid., p. 11.

2/ See, for example, "Distribution of gains at the beginning of the 1980s", chapter IV.2., in "The bargaining capacity of UBEC and of Honduras and Panama in particular and the distribution of gains in the banana industry" (CEPAL document, June 1982).

3/ This is even truer of countries like Colombia where the coffee industry is entirely in national hands.

4/ See table 19, above.

/In the

In the absence of more exhaustive data on the distribution of gains between the producer and consumer countries and the TCNs,1/ this chapter on international coffee prices will wind up with a rough approximation of the situation 2/ by evaluating the main components or margins of the retail price of coffee in the main consumer markets.

Table 20 contains CEPAL estimates 3/ of the three main components of the retail price of one kg of roasted coffee in the market of the Federal Republic of Germany, the United Kingdom 4/ and the United States in the years 1975 to 1978. The first component is the margin of the cost of the raw material expressed in unit values of import CIF, with some indication given as to the corresponding cost in the producer country;5/ the second shows the participation of the revenue obtained by the government of the consumer country from tariffs and taxes, and the third (the remainder) represents the margin of other costs and profits of the coffee processing and marketing firms.

In view of the rough nature of the estimates and the heterogeneity of the national cases considered (diversity of origin and types of coffee, differences in the application of the tariffs and tax systems,6/ variations in monetary exchange, etc.) some hypotheses may be drawn concerning the distribution of gains between the producer and consumer countries:

- the share of the producer countries in the final price of the coffee 7/ was less than 40% in 1975 in the three European Markets and 68% in the market of the

---

1/ See CEPAL, Ibid.,

2/ This chapter will be touched upon again in subsequent chapters (V and VI) on the case of Colombia and the conclusions on the negotiating capacity and distribution of gains in the coffee industry.

3/ See the document cited in table 20.

4/ Retail price of one four ounce jar of soluble coffee, which accounts for over 80% of the coffee consumed in the United Kingdom.

5/ To obtain the returned value of exports, it would be necessary to deduct the cost of freight and maritime insurance (arriving at the value FOB) and the external payments made by the producer countries with regard to the industry.

6/ For example, in the Federal Republic of Germany, unlike the other markets considered here, consumption of the more expensive types of mild coffee prevails; the three European Markets are mostly supplied by the countries associated with the EEC through the Lomé Convention and are exempt from the General System of Preferences and in the United Kingdom there is no special tax at all on coffee.

7/ Over-estimated for the reasons explained above.

/Table 20

Table 20

MAIN CONSUMER MARKETS: ESTIMATED RETAIL MARGIN IN RESPECT OF 1 KG OF ROASTED COFFEE (1975-1978)
(As a percentage of the retail price)

Market	Retail price		Raw material a/		State revenue b/		Other costs and profits c/	
	1975	1978	1975	1978	1975	1978	1975	1978
1. Margins								
Federal Republic of Germany	100	100	26	44	35	30	39	26
France	100	100	39	49	7	7	54	44
					1975		1977	
United Kingdom d/	100	100	37	64e/	63		36	
United States	100	100	68	72	32		28f/	
2. Indices (absolute values)								
Federal Republic of Germany	100	132	100	221	100	111	100	89
France	100	223	100	281	100	218	100	182
					1975		1977	
United Kingdom d/	100	266	100	461e/	100		135	
United States	100	245	100	258	100		217f/	

Source: CEPAL, América Latina y el mercado mundial del café, op.cit., tables 43, 44, 46 and 47 (on the basis of national data and data supplied by the International Coffee Organization).

a/ Unit import values CIF multiplied by 1.19 (conversion factor recognized by ICO) to compensate for the loss of weight in roasting.
b/ Tariffs and taxes.
c/ Obtained by subtraction.
d/ Based on the supermarket price of one 4-ounce jar of soluble coffee.
e/ 1977.
f/ 1978.

/United States

United States. The substantial increase in international coffee prices between 1975 and 1978,1/ which was passed on to the consumers through more than proportional increases in the retail prices, made it possible to increase the margin of the raw material in 1978 to 44% and to 49% in the Federal Republic of Germany and France and to 54% and 72% in the United Kingdom 2/ and the United States respectively.

- Most of this increase in the participation of the producer countries and the final prices has been at the expense of the cost and profits margin of the processors and distributors, which, in the cases of the Federal Republic of Germany and France fell from 39% to 26% and from 54% to 44%, respectively.3/

- On the other hand, this redistribution in relative terms in favour of the coffee-producing countries did not result in a decrease in absolute terms in the unit earnings 4/ of the industry and the State in the period under review. As is also shown in table 20, the aggregate total of these earnings increased by 117% in the case of the United States and by 35% in that of the United Kingdom.5/ In France the unit income of the State rose by 118% and that of the industry by 82%. A decrease in the unit earnings of the industry is estimated only in the case of the Federal Republic of Germany, and that by 11%, but the earnings of the State also rose by 11%.

- In any case, the unit values of the raw material increased in the boom period for the coffee producers at a much higher rate than did the earnings of the State and of the industry in the consumer countries (increases of between 361% (United Kingdom) and 121% (Federal Republic of Germany)).

1/ For example, from US$ 3.00 to US$ 5.20 in the case of Colombian coffee (at 1980 constant prices), i.e., by 73%.

2/ 1977.

3/ This breakdown is not available for the markets of the United Kingdom and the the United States.

4/ Actually, this refers to absolute unit values of the retail price margins. An assessment of the real income would have to take the volumes marketed into account as well.

5/ 1975-1977.

IV. THE COFFEE INDUSTRY IN LATIN AMERICA

1. The economic importance of the industry

Coffee constituted more than one third of the exports of primary commodities from Latin America, on average, in the years 1977 and 1979 (21% if petroleum is included (see table 21)). In the same period, coffee accounted for over 10% of the total exports of the region, a share which amounted to nearly two-thirds in the case of Colombia and El Salvador, over 40% in that of Guatemala and over 20% for Costa Rica, Nicaragua, Honduras and Haiti. In the case of Brazil, the leading coffee-exporting country in the region and in the world, coffee accounted for 15.5% of total exports. Coffee also accounted for a share higher than the regional average in the exports of Ecuador and the Dominican Republic.

The importance of coffee is not, however, confined to the external sector. Its share in the domestic product and its importance for the generation of employment are also very great in some countries; coffee is a highly labour-intensive crop, where there are relatively few prospects for mechanization. Finally coffee also generates income for the fiscal sector through the application of various tax mechanisms. The situation with respect to the GDP and employment in the case of Brazil, Colombia, Costa Rica and Guatemala is summarized in table 22.1/

2. Share in the world market and bargaining capacity

In spite of the substantial increase in the importance of robusta coffee of African and Asian origin after the War,2/ at the end of the 1970s Latin America was still in the lead, with 57% of world exports, by comparison with 26% for Africa and 7% for Asia (see table 23). The major exporters were Brazil and Colombia, with 17% and 15% of the world total; the Central American countries 3/ with a combined share of 16%; Mexico with 4%, and Ecuador and Peru with 2% each.

A comparison of the position of the various Latin American countries in the world coffee market in terms of the share of this product in their total export

---

1/ The fiscal contribution of coffee in the case of Colombia will be examined in chapter IV.

2/ See table 1 above. (This table is not strictly comparable with table 22 because it includes ICO countries only.)

3/ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.

/Table 21

Table 21

LATIN AMERICA: SHARE OF COFFEE IN TOTAL EXPORTS

(Annual averages 1977-1979)

	Coffee exports (Millions of dollars)	Share in total exports of goods	Share in total exports of primary commodities (including petroleum)
Brazil	2 054.3	15.5	42.9
Colombia	1 844.9	63.1	87.4
Mexico	482.5	7.7	13.7
Guatemala	494.6	42.5	62.2
El Salvador	555.8	63.3	82.1
Costa Rica	317.5	37.1	56.7
Ecuador	244.1	14.8	20.4
Peru	212.9	8.9	13.8
Honduras	192.5	31.3	41.4
Nicaragua	185.6	28.2	42.7
Dominican Republic	146.7	19.3	29.6
Haiti	58.8	35.0	67.4
Latin America	6 886.6	10.4	21.3

Source: World Bank, "Commodity Trade and Price Trends, 1976-1979", Washington, 1981.

/Table 22

Table 22

IMPORTANCE OF COFFEE FOR THE DOMESTIC ECONOMY OF SELECTED LATIN AMERICAN COUNTRIES (CIRCA 1976)

	Share of coffee in agricultural GDP (%)	Share of coffee in total GDP (%)	Share of the coffee sector in total employment (%)
Brazil	19	2.4	...
Colombia	28	5.4	9
Costa Rica	23	4.6	8
Guatemala	23	6.4	18

Source: ICO, Banco de la República de Colombia.

/Table 23

Table 23

LATIN AMERICA: SHARE OF THE LEADING PRODUCER COUNTRIES IN WORLD COFFEE EXPORTS (AVERAGE VALUES IN THE PERIOD 1977-1979)

Country / Region	Percentage share of	
	World coffee exports	Total exports of the country
Brazil	17.1	15.5
Colombia	15.4	63.1
Costa Rica	2.6	37.1
Ecuador	2.0	14.8
El Salvador	4.6	63.3
Guatemala	4.1	42.5
Honduras	1.6	31.3
Mexico	4.0	7.7
Nicaragua	1.5	28.2
Peru	1.8	8.9
Dominican Republic	1.2	19.3
Other Latin American countries	1.5	...
Total Latin America	57.4	10.4
Africa	26.1	5.0
Asia	7.1	0.5
Oceania	1.4	9.7
Total developing countries	92.0	3.2
Rest of the world	8.0	0.1
World total	100.0	0.9

Source: See table 21.

/earnings, reveals

earnings, reveals diverse situations (see table 22). First, in the case of Brazil, its position as leading world exporter (17% of the total) combines favourably with the relatively high diversification of its economy and exports (coffee accounting for only 15% of the total). The fact that this country's share in world supplies of coffee is greater than its dependence on the external earnings generated by this commodity, obviously gives it greater freedom in overcoming the negative effects of the fluctuations in international prices 1/ and enables it to exercise greater power in bargaining with external agents than is the case of countries in the reverse situation.2/ A similar situation (although in smaller proportions) is found in the case of Mexico.

In the case of all the other exporting countries in the region and, in particular, those in Central America, the relationship between the share in the world coffee market and dependence on coffee exports is the reverse of that in Brazil. While in Colombia -the second most important coffee exporter in the world- the ratio of the indicators referred to is approximately 1:4, in the Central American countries it is on the order of 1:15 (Costa Rica, El Salvador, Dominican Republic) to 1:20 (Honduras and Nicaragua). On the other hand, this same comparison also confirms the importance of unity and co-operation among the producing countries: the Central American countries together control nearly 16% of world coffee exports, and this share rises to over one-third when other Latin American producers of mild coffee Colombia (15%) and Mexico (4%) are taken into account.3/ The fact that the Central American countries, Panama and Colombia maintain an integrated banana policy towards the TNCs through the Union of Banana Exporting Countries (UBEC), which is responsible for 60% of world banana imports (excluding the socialist countries) and past experience with co-operation among the Latin American coffee producers show

---

1/ Which, in turn, are influenced by the level of Brazilian production (in particular, by the effect of the frost referred to above).

2/ Naturally, the appraisal of the degree of dependence or bargaining power of a given country vis-à-vis external agents cannot be reduced to a simple formula based on the respective weight of international trade flows. The limited aim of this comparison is only to illustrate the heterogeneity of the different national situations and the importance of unity and co-operation among coffee-producing countries.

3/ The combined average of the Latin American mild coffee-exporting countries in the ICO market alone during the period 1975/1976-1979/1980 was 43% (see table 1).

the convenience of continuing to seek formulas for organization and appropriate instruments of horizontal co-operation in connexion with tropical export commodities.1/

3. Local marketing

The domestic market in the Latin American coffee-producing countries varies in accordance with whether the coffee produced is washed arabica (Colombian milds and other milds which predominate in Central America) or unwashed arabica (Brazil). The main difference between the two types depends on whether primary processing (depulping, cleaning) is a wet operation, as in the case of the washed arabicas, or a dry operation, as in that of the unwashed arabicas. Among the countries which produce "washed" coffee, a distinction must be made between Colombia, where the processing is performed by the producer himself, and nearly all the other countries, where processing takes place in "mills", which, as a general rule, do not belong to the coffee-grower.

In the latter countries, the small-scale producer usually sells the coffee to the washer, whence, after transformation into an export commodity, it is sent to the public or private entities which conduct export operations. In Colombia, on the other hand, what usually happens is that private and public exporters buy the coffee already processed from the producer. In the other countries this happens only in cases of large-scale production or, as in the case of Brazil, where producer co-operatives exist. Middlemen often operate in the various stages involved in the domestic marketing of coffee, and their price differentials are sometimes relatively high.

With the objective of remedying this and other problems, the majority of Latin American coffee-producing countries have public or semi-public agencies with various functions which pursue the main objective of regulating and co-ordinating

---

1/ In 1980, bananas, coffee, cocoa, sugar cane and cotton constituted 69% of the total exports of Colombia; 50% of those of Costa Rica, Guatemala and Honduras and 34% of those of Panama (see Diversificación económica y alternativas de cooperación multisectorial de la UPEB, in connexion with the bargaining power of UPEB and in particular of Honduras and Panama and the distribution of gains in the banana industry (CEPAL, restricted document of July 1982)) and also part III. 3 (a) (i) of this study.

the national coffee sector and, in some cases, intervening directly in the market to ensure that the producer makes a minimum income.1/

Finally, in table 24 figures may be found which describe the domestic distribution of the gains derived from the industry through domestic marketing, i.e., the share of the export price realized by the coffee-grower. As may be imagined, the situation varies a great deal from one country to another depending on such diverse factors as the characteristics of the processing operation (whether it is carried out by the producer at artisan level or by other entities), the extent of taxation, the distribution of the tenure of the coffee plantations, the size of the inventories and the effectiveness of price supports.

4. Local consumption

To complete this chapter, attention should be drawn to the importance of the local consumption of coffee, particularly in Brazil where the total consumption between 1975 and 1978 fluctuated between 7 and 8 million bags, which makes it the second largest coffee-consuming country in the world, after the United States (see table 25). On the other hand, in terms of per capita consumption, Brazil is in the middle level of consumer countries, along with France and the Federal Republic of Germany, with consumption of 10-12 pounds of coffee per person a year.

Domestic consumption has been an important variable in the management of marketing policies by the public sector. In periods when prices are high, it has in some cases been necessary for the State to intervene to ensure that the domestic market is adequately supplied at reasonable prices. In Mexico, for example, for a number of years the Mexican Coffee Institute required that for every two bags exported one should be held in reserve for domestic consumption.

Conversely, in periods of over production and depressed prices, the public authorities of the Latin American coffee-producing countries have had to use the domestic market to absorb some of the surplus production. In general, the lower quality coffee produced has been reserved for domestic consumption while the better quality coffee has been used for export.

1/ Among the public or semi-public agencies operating in the domestic marketing of coffee, mention may be made of the Brazilian Coffee Institute (IBC), the National Federation of Colombian Coffee-Growers (FEDECAFE), the Coffee Institute of El Salvador (INCAFE), the National Association of Coffee-Growers of Guatemala (ANACAFE), the Mexican Coffee Institute (INMECAFE), the Costa Rican Coffee Office and the Honduran Coffee Institute.

/Table 24

Table 24

LATIN AMERICA: PROPORTION OF THE EXPORT PRICE RECEIVED BY THE COFFEE GROWER, 1972-1977

	Brazil	Colombia	Costa Rica	Ecuador	El Salvador	Guatemala	Honduras	Mexico	Nicaragua	Peru
1972 (a) Price to the producer (ctv/lb)	22.94	30.88	31.52	16.76	31.85	33.71	21.58	27.61	38.82	27.01
(b) Export price (ctv/lb)	41.59	49.84	43.12	36.93	47.51	43.70	37.84	46.06	46.02	40.70
(c) (a) as a percentage of (b)	55.2	62.0	73.1	45.3	67.0	77.1	57.0	59.9	84.3	66.4
1973 (a) Price to the producer (ctv/lb)	32.69	36.90	43.12	29.79	34.16	41.66	36.98	39.76	45.85	...
(b) Export price (ctv/lb)	51.28	66.79	54.83	44.24	53.98	57.76	55.16	57.55	54.96	...
(c) (a) as a percentage of (b)	63.7	55.2	78.6	67.3	63.3	72.1	67.0	69.1	83.4	...
1974 (a) Price to the producer (ctv/lb)	35.07	36.93	44.95	35.26	41.53	49.11	50.29	50.57	61.02	54.93
(b) Export price (ctv/lb)	55.81	68.53	63.37	52.42	61.10	63.68	64.64	64.47	62.82	59.63
(c) (a) as a percentage of (b)	62.8	53.8	70.9	67.3	70.0	77.1	77.8	78.4	97.1	92.1
1975 (a) Price to the producer (ctv/lb)	50.22	35.66	37.86	32.46	32.58	41.81	38.95	41.42	46.87	51.36
(b) Export price (ctv/lb)	48.36	68.83	57.59	47.66	56.66	55.75	53.18	59.93	62.17	55.84
(c) (a) as a percentage of (b)	103.8	57.6	65.7	68.4	57.5	75.0	73.2	69.1	75.4	92.0
1976 (a) Price to the producer (ctv/lb)	90.72	71.77	66.85	77.74	85.12	77.80	...	60.09	87.21	86.74
(b) Export price (ctv/lb)	116.20	123.37	110.45	102.39	114.46	102.15	...	113.44	103.99	108.05
(c) (a) as a percentage of (b)	78.1	58.2	60.5	75.9	74.4	76.2	...	53.0	83.9	80.3
1977 (a) Price to the producer (ctv/lb)	116.25	88.01	139.80	122.12	165.46	97.23	153.43	110.41	118.48	155.50
(b) Export price (ctv/lb)	195.89	221.64	247.58	147.52	186.61	188.38	213.66	216.89	141.20	201.65
(c) (a) as a percentage of (b)	59.3	39.7	64.3	82.8	88.7	51.7	71.8	50.9	84.1	77.1

Source: International Coffee Organization.

/Table 25

Table 25

LATIN AMERICA: DOMESTIC COFFEE CONSUMPTION
COFFEE YEARS 1960/1961-1978/1979

(Millions of 60-kg bags)

Coffee Year (1 October-30 September)	Brazil	Rest of Latin America	Total Latin America	Domestic consumption as a % of the total production of Latin America	Domestic consumption of Latin America as a % of world export
1960/61	7.0	3.7	10.7	22.4	25.2
1965/66	7.5	4.8	12.3	20.7	27.8
1970/71	8.3	5.7	14.0	43.1	26.6
1975/76	8.0	6.0	14.0	28.6	24.2
1976/77	7.0	5.5	12.5	35.3	21.4
1977/78	7.5	6.2	13.7	30.3	29.2
1978/79	8.0	6.4	13.4	29.2	24.1

Source: US Department of Agriculture, "Coffee Production and Trade in Latin America", Washington D.C., May 1979.

V. THE COFFEE INDUSTRY IN COLOMBIA

1. Economic importance

As indicated in the previous chapter, Colombia is the second world exporter of coffee with a 15% of the world total in the years 1977-1979 1/ (see table 23). Although the importance of coffee in the national economy has declined since the War due to economic diversification and especially to industrial development, it is still a highly significant product as may be seen in the table 26.2/

It is very difficult to estimate the role of coffee in employment, primarily because of the seasonal nature of the crop. It is, however, calculated that around 1976 the coffee crop generated a labour force of approximately 740 000 workers.3/ Moreover, the stationary population in the coffee plantations, which is basically dependent on this crop, numbered 2 million people, representing 25% of the rural population of the country.

Colombian coffee belongs to the category known as the "Colombian milds", to which, in addition to Colombia, two African producing countries -Kenya and Tanzania- contribute. The Colombian milds are, in general, quoted higher than the other types of coffee.4/

2. Organization of production and domestic marketing 5/

The production and processing as well as the marketing of coffee in Colombia are in national hands. Small and medium-sized coffee plantations of from 1 to 20 hectares, which in 1970 accounted for over two-thirds of the total production of coffee, prevail. The larger coffee plantations, of from 20 to 100 hectares, produce 24% of the total, partly because of the relatively greater yields per hectare (see table 27).

1/ The data are for the "coffee year", i.e., the period from 1 October to 30 September.

2/ The sudden recovery in 1977 was of course due to the sharp climb in value of coffee in the international markets and was only temporary.

3/ See FEDESARROLLO, op. cit., p. 107.

4/ See table 19, above.

5/ "Precios y Ganancias en el Comercio Mundial del Café". See also the article by A. Orlandi, CEPAL Review, No. 5, first half of 1978.

/Table 26

Table 26

COLOMBIA: SHARE OF COFFEE IN THE GROSS DOMESTIC PRODUCT

(Percentage)

Year	Share of coffee in		Total exports
	Total GDP	Agricultural GDP	
1950	9.7	25.8	...
1960	8.5	26.0	81.2
1965	7.1	24.1	78.3
1970	4.6	18.3	68.4
1975	3.6	15.1	47.2
1977	5.4	28.0	65.4

Source: FEDESARROLLO, "Economía Cafetera Colombiana", Coffee Fund, Bogotá, 1980.

Table 27

COLOMBIA: STRUCTURE OF LAND TENURE IN THE COFFEE SECTOR (1970) a/

(Percentage)

Size (in hectares)	Plantations	Land under production	Production	Yield (kg/hectare)
Less than 1	33.5	4.7	4.3	485
from 1 to 3.99	43.8	25.1	22.2	471
from 4 to 7.99	13.0	20.3	19.1	502
from 8 to 11.99	4.3	11.8	11.6	523
from 12 to 15.99	2.0	7.6	8.3	523
from 16 to 19.99	1.1	5.6	5.8	549
from 20 to 99.99	2.2	21.2	24.1	606
Over 100	0.08	3.7	4.6	674

Source: FEDECAFE, Colombia, 1970 Coffee Census.

a/ Distribution by coffee plantations.

/The yields

The yields per hectare obviously increased over the past decade owing to the introduction of technology in Colombian coffee-growing.1/ In 1979/1980, 25% of the total land was technologically cultivated under direct supervision of the National Federation of Coffee-Growers, but this land yielded over half the country's production.2/ Over half the holdings benefiting from the introduction of technology were under 1.5 hectares in size.

In Colombia coffee is processed on the farm by the growers themselves. The harvested berry is depulped and left to ferment for a period ranging between 12 and 24 hours, in wooden vats with plenty of water which is continually stirred. The berries are then washed, to get rid of the syrupy residues and are dried in the sun. At this stage, the coffee is called "parchment" coffee, and this is the form in which it is sold to the purchasers. The final phase of processing is threshing, which consists in removing the parchment-like outer skin of the berries, and the coffee is then ready for consumption or export. This last operation, unlike the first, which has artisan characteristics, is carried out in plants of an industrial type. Approximately 5 pounds of parchment coffee are needed to obtain 4 pounds of green coffee ready for export.3/

Several factors (such as the predominance of smallholdings, transport difficulties, etc.) determined the adoption of this system of processing coffee, which gives the producer part of the value added which would otherwise benefit the industrial units. The equipment required for processing coffee is minimal,4/ and the procedure is simple. Processing the coffee on the farm means that advantage can be taken of the post-harvest period, use can be made of the waste left by the operations as compost and the weight of the loads to be transported to the buyer markets can be cut down. Before being sold, the coffee is sorted by hand, and the lower-grade beans are classed as "pasilla" or coffee for domestic consumption.5/

1/ New crops promoted in the past 10 years included the "Caturra" variety, which does not require shade and provides higher yields with heavy fertilization.

2/ See "Economía Cafetera", information bulletin of the Federation of Coffee-Growers, Vol. 9, No. 7, July 1979.

3/ For this reason parchment coffee is usually sold in loads of 125 kilogrammes or in "arrobas" of 12.5 kilogrammes, which correspond, after threshing, to 100 or to 10 kilogrammes of green coffee, respectively.

4/ It consists of a hand-operated depulping machine, with a few wooden vats for fermenting and a space for the drying process.

5/ As will be noted, "pasilla" also plays a part in the export activities since one of the export taxes consists in a 6% of the volume exported payable in "pasilla".

/It is

It is estimated that there is one coffee mill in Colombia for every four hectares under coffee, a figure which gives some idea of the artisan level at which this activity is carried on.1/ Only a few farms go as far as undertaking the threshing operation because it requires high investment and is not economical on a small scale. Once threshed, the "excelso" coffee or green coffee for export which meets the quality standard established by the National Federation of Coffee-Growers is marketed internationally.

In recent years the creation of coffee processing and marketing co-operatives has been promoted with technical and financial support from the Federation. It is estimated that at present the majority of small-scale coffee-growers are members of some kind of co-operative.

As can be seen in greater detail in the following part, the coffee-grower must sell parchment coffee to the Federation of Coffee-Growers, which has a network of purchasing centres in all the coffee-producing areas. In these centres commercial middlemen do the threshing and then export the coffee.

3. Instruments of the coffee policy

In the coffee policy of Colombia, an important role is played by the Federation of Coffee-Growers (FEDECAFE), a private association of coffee producers which, in practice, enjoys a semi-public status. Its functions include the following: fixing of support prices and the determination of quality criteria in the purchase of coffee from producers; formation and management of inventories; sales to private exporters or direct exportation of coffee; utilization of the National Coffee Fund, which is fed by coffee taxation at several levels and by the profits on the Federation's sales; control of the domestic market and, in general, responsibility for the coffee policy at both the domestic and the international level. The interests of producers, exporters, the State and other economic agents connected with the industry confront one another and are reconciled in the Federation. Coffee policy decisions as a general rule emanate from FEDECAFE.

The various instruments of the coffee policy which have an impact on the income of the coffee producers and exporters and the State are discussed briefly in this part of the study. Obviously these are basically determined by market forces;

1/ In El Salvador, for example, the corresponding figure is approximately one processing plant for every 700 hectares.

/however, the

however, the State, in corporation with FEDECAFE, influences two important factors in the free play between supply and demand: (a) the minimum guarantee prices (or producers' price supports) set by the Federation of Coffee-Growers, and (b) the tax mechanism, which is modified in the course of time and sets the parameters within which the private agents are allowed to intervene.

(a) Minimum support prices

The minimum price of parchment coffee is set by a governmental committee made up of the Ministers of Agriculture and Finance and the General Manager of the Federation of Coffee-Growers. Table 28 shows the trends of this price in the period 1972-1979 in comparison with the prices paid by private exporters. As may be seen, the support prices paid by FEDECAFE increased 2.7 times during the "boom" (1976-1977) while those paid by private exporters grew by a coefficient of 2.3.

In June 1976, with a view to reducing the inflationary effects of the rise in the price of coffee, the Coffee Savings Certificate (TAC) was introduced. Through this instrument, the Federation paid the coffee-growers part of the support price in negotiable certificates, bearing an annual interest of 18% and quoted in the national financial market at a value slightly below their nominal value. In table 28 this difference is discounted from the FEDECAFE prices for the period June 1976-February 1979.

The maintenance of the domestic price at Col$ 7 300 between June 1977 and February 1979, at the margin of the real decrease due to the effect of the monetary depreciation, meant that national producers continued to be paid at remunerative levels despite the sharp drop in coffee prices in the international markets. The purchases made by the Federation on the terms described have been financed by the National Coffee Fund (a special account in the Banco de la República, managed by the Federation), which, in addition to using its own resources for that purpose, may obtain loans from the Banco de la República and pay them off as the coffee is sold to private exporters or exported directly abroad.

(b) Taxation

The tax instruments which relate to the coffee sector are, with practically no exceptions, brought to bear in the export phase.1/ They are as follows:

1/ Tax incidence on production (income taxes, land tax and additional taxes) is minimal, and does not amount to 5% of production costs.

/Table 28

Table 20

COLOMBIA: PURCHASE PRICES OF PARCHMENT COFFEE PAID BY FEDECAFE AND BY PRIVATE EXPORTERS (1972-1979)

(Colombian pesos per 125-kg load)

Year and month	FEDECAFE	Exporters	Difference
1972	1 500	1 508	-8
1973	1 937	1 891	46
1974	2 207	2 369	-162
1975	2 728	3 006	-278
1976 I	3 500	4 150	-650
II	3 845	4 570	-725
III	4 120	4 560	-440
IV	4 495	5 220	-725
V	5 000	6 170	-1 170
VI	6 560 a/	6 950	-390
VII	6 450	6 222	228
VIII	6 450	6 768	-546
IX	6 450	6 350	100
X	6 450	6 250	200
XI	6 490	6 500	-10
XII	6 960	7 225	-265
1977 I	6 899	7 528	-629
II	6 941	7 500	-559
III	6 934	7 600	-666
IV	6 932	7 350	-418
V	6 946	6 600	346
VI	7 238	6 500	738
VII	7 249	6 500	749
VIII	7 248	6 725	523
IX	7 233	6 580	653
X	7 237	6 500	737
XI	7 240	6 800	440
XII	7 240	6 850	390
1978 I	7 234	7 008	226
II	7 224	7 001	223
III	7 224	6 921	303
IV	7 194	6 991	203
V	7 207	6 923	284
VI	7 200	6 938	262
VII	7 226	6 905	321
VIII	7 239	7 009	230
IX	7 250	7 073	177
X	7 190	6 960	230
XI	7 169	6 849	320
XII	7 139	6 773	366
1979 I	7 142	6 920	222
II	7 143	6 860	283
III	6 400	6 150	250
IV	6 400	6 363	37
V	6 574	6 578	-4
VI	6 947	6 955	-8
VII	7 143	7 110	33
VIII	7 340	7 276	64
IX	7 713	7 759	-46
X	7 900	7 919	-19
XI	8 100	8 072	28

Source: Prepared on the basis of data published by FEDECAFE, reports of the General Manager, various years.

a/ Between June 1976 and February 1979 the Coffee Savings Certificate (TAC) is shown at its commercial value.

/(i) Reintegro

(i) Reintegro mínimo cafetero (minimum exchange surrender requirement)

Since 1967 the Monetary Board has been determining the amount of foreign exchange which has to be deposited for each 70-kg bag exported.1/ Previously (1957-1966) there had been a special exchange rate called the "coffee dollar".2/ This exchange differential really constituted an additional variable tax which at present operates when the exchange refund level is set above the international price level. Such cases are not very common and more than anything else amount to an attempt to force international prices up by discouraging the national supply.

On the other hand, the opposite -a failure to respond promptly in adjusting the minimum refund upwards in periods of international price increases- has also occurred in the Colombian experience.3/ This happened during the boom in 1976-1978 and resulted, on the one hand, in a smaller inflow of exchange for the Banco de la República and, on the other hand, additional gains for private exporters.

(ii) The ad valorem export tax

This tax had been abolished in 1962 but was reintroduced in 1967 simultaneously with the abolition of the special exchange rate for coffee (see above). It is determined on the basis of the minimum refund set by the Monetary Board, and its rate was progressively reduced from the original rate of 26% until by 1980 it had dropped to 13%. The revenue it produces is distributed between the National Coffee Fund (20%), the Departmental Coffee Committees (5%) 4/ and the Tax Office (75%).

(iii) Exchange differential on foreign currency receipts

This instrument has been in force since 1977 and applies to all exports. It is collected through discounts applied to the exchange certificates. Its rates varied from between 15% and 6% during the period 1977-1980.

(iv) The real currency exchange rate

Through the instruments referred to above, a real rate of exchange for currency receipts from coffee exports has been established by the State. This differential rate has always been greater than the rate applied to the exports of

---

1/ At the end of 1980, the reintegro mínimo cafetero was set at US$ 201 per 70-kg bag exported.

2/ The exchange rate used for coffee exports averaged about 20% lower than that used for other types of exports.

3/ See FEDESARROLLO, op. cit., chapter XX.

4/ For infrastructure works in coffee-growing areas.

/other goods

other goods (see table 29). As was to be expected, the differences between the two exchange rates grew wider and wider during the price bonanza (1977-1978).

Table 29

COLOMBIA: EXCHANGE RATES FOR COFFEE EXPORTS AND EXPORTS OF OTHER GOODS (1975/1980)

(Col$ per US dollar)

Year and month		Coffee exports	Other exports	Differences (percentage)
1975	January	23.39	28.88	23.5
	June	24.37	30.83	23.5
1976	January	27.15	33.119	22.0
	June	28.41	34.64	21.9
1977	January	30.20	36.38	20.5
	June	25.75	36.50	41.7
1978	January	29.07	38.03	30.8
	June	30.32	38.81	28.0
1979	January	31.46	41.15	30.8
	June	32.9	42.69	29.4
1980	January	34.13	44.16	29.4

Source: FEDECAFE, "Economía Cafetera", Volume 10, No. 5, May 1980.

(v) The coffee retention quota

This instrument refers to the private exporters' obligation to surrender to the National Coffee Fund a payment in kind of "parchment" coffee, with no remuneration whatsoever. The quota is fixed periodically in percentages of the volume of "green" coffee exported. The surrender of this amount of coffee, or its equivalent in money, is a prerequisite for obtaining an export permit.

Since, as was seen above, 1.25 units of parchment coffee are needed to obtain one unit of "green" coffee, the amount required is, in fact, 1.25 times the volume it is desired to export. For example, with the retention quota of 58% in 1979, the amount of parchment coffee that the private exporter had to surrender per 70-kg bag exported was calculated in accordance with the following formula:

70 x 0.58 x 1.25 = kg 50.75 (or its equivalent in money).

/Originally (retention

Originally (retention was introduced in 1958) the main purpose of this instrument was to build up inventories with a view to protecting coffee prices. Between 1958 and 1972, the coffee retention quota never exceeded 25%. Later, however, when cash payments were permitted, the retention quota became just one more tax and, from 1974 onwards, the most important tax at that. As international prices rose, the rate of retention increased until it had climbed to 80-85% in the period 1976-1978. Later it began to decrease, dropping to 25% at the end of 1980.

(vi) The "Pasilla y Ripio" tax

This tax corresponds to a fixed quantity of "pasilla" and "ripio" lower-grade coffee which every exporter has to hand over to the Federation. It serves the purpose of obtaining lower-grade coffee for domestic consumption, reserving the higher-grade beans for export. For every 70-kg bag of "green" coffee exported, the exporter has to surrender 3.85 kg of "pasilla" and 0.35 kg of "ripio".

4. The effects of taxation

The total amount of the taxes collected compared with the total value of production as calculated by FEDESARROLLO is shown in table 30, while the distribution of the total tax earning among the coffee organizations and the State is reflected in table 31. Both tables show, on the one hand, the increase in the tax burden during the period of the boom (1976-1977) and, on the other hand, the fact that much of the increase in tax earnings returned to the Coffee Federation through the National Coffee Fund and the Departmental Committees of Coffee-Growers to accumulate reserves which make it possible to maintain the levels of the guarantee prices, to create infrastructure, extension services, etc.1/

As was observed in the preceding part, the support prices and the levels of taxation are the two basic parameters of the formation of the domestic "balance" price and therefore determine the profitability of the industry. In the case of the private exporters, the degree to which coffee policy instruments are applied determines de profitability of their activities and consequently the decision as to whether to compete on the external market with Colombian coffee or to yield this option to FEDECAFE, which has the obligation to accept the whole supply of coffee

1/ The surplus accumulated during the period of high international prices enabled the National Coffee Fund, for example, to finance domestic purchases at prices favourable to the coffee-growers after the "boom".

/Table 30

Table 30

COLOMBIA: TOTAL EARNINGS FROM TAXES AND DUTIES IN THE COFFEE SECTOR AND THEIR SHARE IN THE TOTAL VALUE OF PRODUCTION (1950-1979)

(Millions of pesos at current prices)

Years	Ad valorem	Exchange differential	Export a/	Pasillas	Retention	Total taxes	Value production	Taxes / Value production x100
1950	-	-	1.0	7.2		8.2	1 070.1	1.0
1955	-	14.6	1.3	20.7		36.6	1 825.4	2.0
1960	324.0	94.4	1.3	23.6	212.5	655.8	2 573.8	25.5
1965	-	613.7	1.2	38.6	242.6	896.1	4 304.0	20.8
1970	1 563.2	-	1.4	67.2	1 275.2	2 907.0	8 342.1	34.8
1971	1 392.9	-	1.4	71.4	1 260.1	2 725.8	7 894.5	34.5
1972	1 807.3	-	1.4	89.0	1 630.8	3 528.5	10 922.8	32.3
1973	2 683.9	-	-	108.0	2 424.8	5 217.5	14 497.5	36.0
1974	2 744.0	-	-	126.7	3 319.0	6 189.7	17 229.9	35.9
1975	3 402.5	-	-	203.8	3 587.5	7 193.9	20 397.8	35.3
1976	6 156.0	-	-	424.2	10 071.0	16 651.2	39 251.3	42.4
1977	8 964.0	2 550.0	-	326.6	20 545.0	32 385.6	64 718.0	50.0
1978	10 880.0	3 049.0	-	n.d.	29 207.0	43 136.0	89 712.0	48.1
1979	12 457.0	2 828.0	-	n.d.	29 846.0	45 131.0	98 950.0	45.6

Source: FEDESARROLLO, op. cit., Chapter XXII and CEPAL calculations on the basis of data supplied by FEDECAFE and the Banco de la República.

a/ A very small export tax, which was completely eliminated in 1972.

/Table 31

Table 31

COLOMBIA: DISTRIBUTION OF THE RETURNS FROM TAXES RELATING TO THE COFFEE SECTOR (1975-1979)

(Millions of pesos at current prices and percentage)

Years	Total taxes	Percentage remitted to:		
		National Coffee Fund	Departmental Coffee Committees	Government budget
1975	7 193.9	59.5	2.1	38.4
1976	16 651.2	68.8	1.7	29.5
1977	29 513	75.3	1.5	23.2
1978	40 097	78.3	1.4	20.3
1979	19 091 a/	79.8	1.2	19.0

Source: FEDECAFE, Report of the General Manager, Bogotá, December 1979.

a/ January/June.

produced in the country and to pay the declared support prices. The intervention of FEDECAFE in the market is, moreover, regulated administratively.1/

In table 32 it may be observed that in 1976 the Federation exported close to one-fifth of the total, while in the years following the boom and the accumulation of inventories, its participation increased from slightly over two-fifths in 1977, until at the end of the 1970s a virtual monopoly was reached. This situation, which, as is only logical, has been objected to by the private exporters,2/ was due to the high domestic prices maintained by the Federation. In 1981, the situation changed, and the private exporters have been able to resume their operations.

1/ The Federation monopolizes trade with countries which have State commerce arrangements, such as the socialist countries and Spain. In addition it usually exports larger qualities to Europe than the private exporters. They, for their part, usually specialize in trade with the United States.

2/ See the report by Gilberto Arango Londoño, President of the Colombian Coffee Exporters Association, to the International Coffee Symposium and Fair held in October 1980 (mimeographed document).

/Table 32

Table 32

COLOMBIA: EXPORTS OF COFFEE BY FEDECAFE AND PRIVATE FIRMS (1969-1980)

(Thousands of 60-kg bags)

Year	FEDECAFE		Firms		Total volume
	Volume	Percentage	Volume	Percentage	
1969	2 655	41.0	3 823	59.0	6 478
1970	2 857	43.9	3 652	56.1	6 509
1971	2 565	39.0	4 004	61.0	6 569
1972	2 343	35.9	4 186	64.1	6 528
1973	2 823	41.7	3 943	58.3	6 766
1974	2 868	41.5	4 038	58.5	6 906
1975	2 935	35.9	5 240	64.1	8 175
1976	1 314	20.9	4 975	79.1	6 289
1977	2 388	44.9	2 935	55.1	5 323
1978	5 659	62.6	3 375	37.4	9 034
1979	9 693	87.1	1 438	12.9	11 131
1980 a/	8 701	97.9	185	2.1	8 886

Source: FEDECAFE, Report of the General Manager to the thirty-ninth National Congress of Coffee-Growers, Bogotá, December 1980.

a/ January-September; preliminary.

/The high

The high level of taxation in Colombia constitutes an incentive, especially in periods of high international prices, for coffee smuggling, particularly to Venezuela.

5. Destination of exports

One of the most important characteristics of Colombia's export trade in coffee in the past 15 years has been the diversification of the markets of destination. This diversification was due primarily to a constant drop in the share of the United States in world imports and to a corresponding increase in the share of Europe and of the non-traditional markets of Japan and the socialist countries.1/

As may be observed in table 33, the share of the United States fell from 79% in the last five years of the 1950s to 28% at the end of the 1970s. Conversely, during the same period, increases were recorded in the share of the EEC (from 11% to 41%) and, particularly, in that of the Federal Republic of Germany (from 7% to 26%). The share of the new markets of Spain, Sweden, Japan and the socialist countries also grew considerably during that period, their combined share increasing from 4% to 19%. In addition, 1980 marked the inclusion for the first time of two Third World countries -Argentina and Algeria- in the ten leading purchasers of Colombian coffee (with 245 000 and 220 000 bags, respectively).

6. The soluble coffee industry

In Colombia soluble coffee has been of marginal importance. This is due to reasons indicated above, including the domination of the world market by transnational corporations and the staggering of tariffs by the importing countries and, in the case of Colombia in particular, the relatively high price of roasted Colombian coffee and the lack of policies relating specifically to this sector.

The sizeable increase in national coffee production and the surplus supply of coffee on the international market, together with the effort to increase the value added of the country's exports, have helped to promote more advance processing of Colombian coffee in recent years. At the National Congress of Coffee-Growers in 1980,2/ the introduction of coffee production and export incentives was announced,

---

1/ See I. 1 (b) (ii) of this study.

2/ See the report of the General Manager to the Thirty-ninth National Congress of Coffee-Growers, Bogotá, December 1980, p. 35.

/Table 33

Table 33

COLOMBIA: COFFEE EXPORTS BY COUNTRIES OF DESTINATION (1954/1955-1979/1980, FIVE YEAR AVERAGES)

Countries of destination	1954-55/1958/59		1964/65-1968/69		1974/75-1978/79		1979-80	
	Thousands of 60-kg bags	%	Thousands of 60-kg bags	%	Thousands of 60-kg bags	%	Thousands of 60-kg bags	%
North America	4 457	84.0	3 014	49.6	2 724	35.1	3 434	29.7
United States	4 220	79.5	2 862	47.1	2 546	32.8	3 214	27.8
EEC	591	11.1	1 654	27.2	3 111	40.0	4 739	41.1
Federal Republic of Germany	371	7.0	1 017	16.7	1 957	25.2	3 059	26.5
Netherlands	75	1.4	296	4.9	662	8.5	1 032	8.9
EFTA	152	2.9	363	6.0	550	7.1	864	7.5
Sweden	135	2.6	298	4.9	437	5.6	628	5.5
CMEA (socialist countries)	15	0.3	295	4.9	290	3.7	365	3.2
Spain	43	0.8	349	5.7	259	3.3	692	6.0
Japan	12	0.2	79	1.3	263	3.4	452	3.9
Others a/	92	1.7	748	12.3	1 094	14.1	2 141	18.5

a/ These figures relate to, in addition to Spain and Japan, a number of other countries, amoung the mos important of which are, Finland, Yugoslavia and Argentina.

/the goal

the goal being to increase the processing capacity to an annual volume of 400 000 bags (green coffee equivalent) in 1982.1/ It is to be hoped that, as a result of the two factors referred to, the export of solubles by Colombia will increase in the future.

1/ See "Seminario sobre Café", Corporación Autónoma Universitaria de Manizales, 1981.

VI. CONCLUSIONS: BARGAINING CAPACITY AND DISTRIBUTION OF GAINS

In this final chapter of the study, an attempt will be made to draw some conclusions concerning the bargaining capacity of the coffee-producing countries in general and of Colombia, in particular, in their dealings with the transnational oligopoly which dominates the world industry and also to consider the distribution of gains between the two parties.

1. The transnational oligopoly and barriers against the producer countries

(a) Power bases of the transnational corporations

Table 34 constitutes a summary of the main factors involved in the power of the TNCs which lead the world coffee market 1/ and their respective strategies. The global economic power of these transnationals, their domination of the highly concentrated industry and their considerable sectoral and geographical diversification give them considerably more bargaining power than that of the coffee producers, particularly when the producers take on the big distributors, roasters and manufacturers of soluble coffee in the consumer countries on their own.

The main strategies of the diversified TNCs in the food and beverage industry (such as General Foods, Nestlé and Coca Cola) and the big firms which specialize in coffee (such as Jacobs of Switzerland) fall within the usual objectives and procedures adopted by transnationals in protecting and enlarging those segments of the consumer markets which they dominate and in their expansion into new markets. The foregoing analysis of the growth strategies of the TNCs in the main coffee consumption markets 2/ show that it was the more powerful transnationals, mainly of United States and Swiss origin, which were the most successful in acquiring established firms in national markets; in coffee product differentiation and branding; in mounting costly advertising campaigns and engaging in "disloyal" or aggresive practices in winning new consumers for their products and, finally, in gaining proprietary control of technology and, in particular, the innovations in the industry.3/ Obviously, the high degree of sectoral and geographical diversification

---

1/ See footnote a/in table 34.

2/ See parts I.3 and II.1 of this study.

3/ This kind of technological takeover makes the coffee industry different from other food industries in which the proprietary control of the technology is shared by those who supply the machinery and equipment.

/Table 34

Table 34

FACTORS INVOLVED IN THE POWER AND STRATEGIES OF THE TRANSNATIONAL OLIGOPOLY IN THE WORLD COFFEE MARKET a/

Sphere of action	Factors relating to power/strategies
A. Oligopolistic power	
1. Roast coffee market	Four firms control over more than 60% of the sales in the USA, the Federal Republic of Germany, France, the Netherlands, Sweden, Belgium and the United Kingdom.
2. Soluble coffee market	Four firms control 80-90% of the leading markets.
3. Global economic power	Total sales of six TNCs in 1976: US$ 25 257 million.
4. Sectoral diversification b/	(a) Share of coffee: 20%. (b) Other beverages and food: 80%.
5. Geographical diversification	Subsidiaries in 6 (Consolidated Foods) - 54 (Nestlé) countries
6. Retail distribution of food	Four integrated firms and/or co-operatives c/ control between 28% (Federal Republic of Germany) and 71% (Denmark) of the sales.
B. Strategies for:	
1. Expansion of capital	Acquisitions, mergers and joint operations
2. Marketing	(a) Manipulation of green coffee inventories and prices in the Exchanges and through "cost mixes" of raw materials of various origins and grades. (b) Product differentiation and branding. (c) Commercial advertising (3-10% of the sales value). (d) Price manipulation and "wars" (coupons, discounts, etc.).
3. Innovations and technology	(a) Proprietory control over registered trade marks and technologies (of a total of 290 patents, General Foods owns 113 and Nestlé, 24); (b) New products in response to the "boom"- grade of extraction, substitutes ("extenders"), "economy blonds" and decaffeinates (in 1979, 10% of the total coffee sales in the USA, 20% in France and 30% in the United Kingdom).
C. Additional barriers against producers	(a) Discriminatory tariffs applied to processed coffee and coffee from Latin America, in general (Lomé Agreement). (b) Special coffee taxes.

Source: Tables and text in parts I. 2-3 and II.1 of this study.

a/ The table refers in particular to the situation during the second half of the 1970s of four TNCs of the United States (General Foods, Procter and Gamble, Consolidated Foods and Standard Brands) and two of Switzerland (Nestlé and Jacobs) in the markets of the industrialized, market-economy countries.

b/ Averages for the six leading TNCs (including Jacobs of Switzerland, which specializes in coffee).

c/ Customers of the TNCs which operate in the retail coffee trade and occasionally also branch out into coffee processing.

/gives these

gives these corporations enough capacity and flexibility to assign and transfer funds among different sectoral and geographical centres of their activities and to lose some of the funds temporarily in order to gain higher profits in the future.

(b) Effects on the producer countries

Focusing now on the power of the oligopoly and the strategies of the TNCs within the context of the interests of the peripheral, coffee-producing countries, we may draw attention to two spheres in which the TNCs limit the bargaining capacity of those countries or manage to out-bargain them: first, prices and other factors in the international marketing of green coffee exported by the producer countries and second, access or barriers to the entry of those countries into the manufacture and international marketing of coffee products in general and their participation and direct investment in the consumer markets, in particular.

(i) In the field of prices

As indicated above 1/ the unit price received for green coffee in the international markets constitutes the main way of determining the distribution of gains between the two parties. It becomes practically the sole determinant in cases, such as that of Colombia, where there is a total absence of the TNCs in the production and marketing of the coffee.2/ It becomes obvious that the oligopsonistic power exercised by a few TNCs 3/ over many countries which export green coffee enables them to minimize the costs of the raw material by manipulating inventories, taking advantage (often speculatively) of the price fluctuations in the international exchanges and of "price mixes" of coffee of different origins and quality 4/ (in addition to the various substitutes used in the manufacture of of soluble coffee). The TNCs resort to these procedures ("economy" blends and

---

1/ See part III.1 above.

2/ In other producing countries where TNCs participate in the production and marketing of coffee and coffee products there are also other commercial and financial links and flows which determine the distribution of gains between the two parties (for example, transfer prices).

3/ In Colombia, two TNCs of United States origin purchased 50% of the coffee exported to the market of that consumer country, and six corporations purchased 90% of it. Similarly, six corporations account for 96% of the imports of Sweden, and three for 100% of those of the Federal Republic of Germany (see the remark by Dr. Ivan Marulanda, Seminario sobre café, Corporación Autónoma Universitaria de Manizales, Manizales, Colombia, 1981, pp. 95-96.

4/ "The roasters tend to mix kinds of coffee on the basis of their price and not necessarily their grade... if the differential between the price of Colombian coffee and that of coffee from other countries increases, the demand for our coffee may contract significantly" (see Dr. Diego Pizano S., "Los sistemas de comercialización y exportación de café", Ibid., p. 72.

/decaffeinated roasted

decaffeinated roasted and soluble coffee) in reacting to the price "booms", such as the one in 1977-1978 (after the frost in Brazil), to maintain or even increase their retail price margins.1/

It may be concluded from the preceding paragraph that the real international prices, the terms of trade and prices of green coffee are primarily determined by the transnational oligopsony in the world coffee industries to the detriment of the producer countries. It has so far not been possible to redress this imbalance in the bargaining capacity through the international coffee agreements, whose effectiveness in the establishment and stabilization of remunerative international prices was hindered by the opposition of the industrialized countries and by pressure from the TNCs which dominate the industry.2/

(ii) Access to the markets of consumer countries

The oligopolistic domination of the coffee consumption markets has a negative influence on the share of the producers in the gains of the industry not only through the international marketing of green coffee but also through the barriers to the increase in the value added by the national industries of the producer countries. Everybody knows that increased value added may result, first, from coffee exports which are more highly processed (for example, roasted and ground coffee, vacuum-packed coffee, soluble coffee, etc.) and second, in the participation and even the direct investment of the producer countries in the markets of the consumer countries.

The foregoing analysis of the factors involved in the power and strategy of the TNCs (see again table 34) has shown that the bigger TNCs in the food industry in the United States and Switzerland were absorbing the smaller firms by taking over larger and larger segments of the consumer markets. In addition to this kind of oligopolistic competition in the processing and marketing of coffee products, there are two factors which limit the increase in the value added by the producer countries: first, the high degree of concentration which also exists in the retail distribution of food, including coffee, and, second, the protectionist and discriminatory policies (with regard to the degree of processing and origin of coffee) on the part of the governments of the producer countries.3/ These last two

---

1/ See part 2 of this chapter.
2/ See part II.3(a), above.
3/ See parts I.4 and II.2(a), above.

/factors obviously

factors obviously have some responsibility, generally speaking, for the increase in the comparative advantages of the oligopolistic corporations (whether national firms or subsidiaries of the TNCs located in the consumer markets).

The entry barriers described above can usually be overcome only by the biggest coffee producers, as may be seen, in particular, in the case of Brazil.1/ Obviously, only exports of coffee and coffee products in large volumes enable a producer country to establish direct links with the retail distribution networks in the consumer countries, resist the pressure exerted by the established TNCs and penetrate the non-traditional markets (such as those of the United Kingdom, Japan, the socialist countries and countries from the Latin American region itself). In Colombia, the second largest world coffee exporter, the comparative advantage of exports of soluble coffee is also being reappraised.2/ On the other hand, the medium-sized and small exporters, such as those of Central America, for example, would obviously be able to overcome the entry-barriers to the markets of the consumer countries and achieve greater value added in their coffee production only by uniting their efforts in a co-ordinated and/or joint action.

There follows a description of some aspects of the distribution of gains between the TNCs (and the world coffee industry, in general) and the producers. These factors result from the imbalance between the two parties in respect of their bargaining power, as analysed above. Special attention will be focused on the importance, in the distribution of gains, of the value added through coffee processing and marketing as has been discussed in this section.

1/ In 1976, Atalla, the private Brazilian firm, with world coffee sales amounting to US$ 220 million, occupied sixth place in the "ranking" of exporters of roasted coffee (approximately 2% of the world market). In the case of soluble coffee the same group occupied fifth place in the market of the USA (1% of the total, see tables 5 and 13 above). On the other hand, at the end of the 1970s, Brazil had the installed capacity to produce some 3.3 million bags of soluble coffee, most of it in the hands of USA-based TNCs.

2/ In 1982, the capacity to produce soluble coffee in this country amounts to only slightly more than 400 000 bags. The former resistance to the processing of Colombian coffee was related to its low rate of profitability which was overcome through the illegal use of coffee for local consumption as a raw material (with subsidized prices. On the other hand, much of this coffee leaves the country, also illegally).

/2. The

2. The distribution of gains

(a) Participation at country level

In the preceding section (item (b)), it was stated that the oligopolistic power of a few TNCs in the world coffee market usually has a negative influence on the participation of the producer countries in the gains from the industry, primarily because of the mechanisms related to the formation of international prices of green coffee and the barriers against entry into the processing and international marketing phases. It is only during short "sellers' market" periods or price booms 1/ that the share of the producer countries in the final price of coffee increases, as illustrated by the case of Colombia in the period 1975-1977 (see table 35).

In 1977, the year of the international price boom, the share of Colombia in the final prices of processed coffee in the various consumer markets rose substantially by comparison with 1975, owing to the increase of the unit value FOB of its green coffee exports.2/ Conversely, there was a drop in the share of the value added internationally,3/ i.e., in the maritime transport of the raw material, its handling, processing and marketing (including the fiscal earnings of the consumer countries through tariffs, taxes, etc.).

On the other hand, this relative improvement in the balance of gains in favour of Colombia resulting from the price boom in 1977 did not result in a decrease in absolute terms, in the coffee earnings of the transnational oligopoly or in the fiscal earnings of the consumer countries. This important aspect of the period when coffee supplies were low has been illustrated in the foregoing analysis of

---

1/ Whose causes are usually out of the ordinary and a matter of chance (effects of the frosts on the coffee production of Brazil, the leading exporting country).

2/ The big differences between the various markets in terms of retail price margins are attributable primarily to the diversity in freight rates and maritime insurance costs (relative advantage of the United States market), tariffs, taxes and other expenses in the consumer markets (see part III.4, above).

3/ From the consideration of the case of Colombia above it may be seen that the value added nationally is only marginal (processing and distribution of coffee for domestic consumption, low share of soluble coffee in exports and low incidence of ventures into international marketing, etc.).

/Table 35

Table 35

RETAIL PRICE OF COLOMBIAN COFFEE: SHARE OF THE UNIT EXPORT VALUE FOB AND THE VALUE ADDED INTERNATIONALLY

(As a percentage of the retail price of 1 kg of roasted ground coffee)

Market	1975		1977	
	Value FOB a/	Value added b/	Value FOB a/	Value added b/
USA	63	37	75	25
Federal Republic of Germany	26	74	47	53
France	45	55	60	40
Italy	37	63	61	39

Source: Prepared on the basis of table 49 in "América Latina y el mercado mundial del café", CEPAL, op. cit.

a/ Using the factor 1.19 to convert green coffee to roast coffee.

b/ The difference between the final price and the unit value FOB. These figures therefore represent not only the processing and international marketing margins but also the freight and maritime insurance margins (to obtain the value CIF) and the tariffs and taxes paid to the government of the consumer country.

international prices 1/ according to which the increase in the prices CIF of green coffee occurred concomitantly (although at a lower rate, according to that estimate) with the rise in the earnings of the international industry and the governments of the consumer countries.

Taking into accout the usually very tentative nature of the calculations of price margins,2/ it may, in any case, be concluded that the rises in the final price of coffee and coffee products during the short sellers' market periods result not only from the increase in the prices FOB or CIF of green coffee but also from the receipt of higher earnings by the world industry and the tax authorities of the consumer countries. In other words, these external agents become, vis-à-vis the consumers, collectors of the increase in the earnings of the producer countries, probably participating also in the price boom by way of greater net earnings and profits.3/ This assumption seems justified both in the case of the State earnings derived from tariffs and ad valorem taxes 4/ and with regard to the profits of the transnational oligopoly in the coffee industry (also taking into account the decrease in costs brought about through the "price mixes" of green coffee, the use of substitutes in the production of soluble coffee, etc., as referred to above).

Experience seems also to show that a reasonable increase in coffee prices, which have been held down since the transitory boom, and their stabilization in the medium term could be absorbed by the world industry and the consumers. As indicated above, this topic is a matter of controversy between the producer and the consumer countries in the negotiation of the International Coffee Agreement.5/ The alternative, which has been tried in the case of other primary export commodities,6/ consists in

---

1/ See part III.4 of this study and, in particular, table 20.

2/ This is related to problems of access to the data of the various corporations involved and to the comparability of such data.

3/ A similar phenomenon occurred in connexion with the rise in the retail price of banana after a number of Central American countries, joined together in UBEC (Union of Banana Exporting Countries), established a new tax on the export of bananas in 1974 (see "Bargaining capacity and distribution of gains in the banana industry...", CEPAL, op. cit., chapter III.2).

4/ See part II.2(a), above.

5/ See part II.3(a), above.

6/ See the cases of OPEC, IBA (International Bauxite Association) and, in particular, the case of UBEC cited above. Naturally, the case of coffee has its own characteristics which are entirely distinct from those of other primary commodity industries. On the other hand, it is interesting that the main objective of the banana TNCs in fighting against the new export tax was first, to convince the governments in UBEC of the dangers that other fruits might be substituted for bananas in the consumption markets, and second, to divide them so they would not take joint action (see CEPAL, op. cit.).

/co-operation and

co-operation and co-ordinated and joint action on the part of the producer countries in the regulation of production and stocks, international prices and fiscal policies, etc. As mentioned above, measures of this kind call first for political will on the part of the governments concerned and, second, for specialized studies on the possible effects and complexity of the alternatives considered (which are beyond the scope of this study).

Finally, the high share of the value added internationally in the final price of coffee and coffee products (see table 35) confirms the advisability of increasing the participation of the producer countries in the processing and international marketing phases with the objective of increasing the value added nationally. In this connexion, it seems important to bear in mind that the magnitude of the earnings and profits of the TNCs resulting from the coffee business is due to the "package" of integrated activities in the putting together of various kinds of blends and the manufacture of products with exclusive technologies and brand names, large-scale marketing and advertising campaings, etc. It is therefore not surprising that the mere export of soluble coffee by the producer countries through international marketing agents does not increase the value added and may even result in losses.1/

The large investments needed to surmount the barriers against entry into the market of the consumer countries again confirm the advisability or rather the absolute necessity of the producer countries joining forces. This of course is particularly true of the medium-sized and small exporting countries, such as the five Central American countries, which, together with Colombia and Mexico, provide nearly the entire world production of the mild coffees.2/

(b) Participation at producer level

To offset the negative effects of the persistent fluctuation in international coffee prices, the governments of the producer countries intervene in the domestic markets to establish the prices received by the producers. In the case of Colombia, the minimum support prices guaranteed by FEDECAFE, the tax policy and the management of the National Coffee Fund make it possible to perform this important

---

1/ This was the case of Brazil which in 1980 exported 1 kg of soluble coffee at US$ 7.70 whereas the unit cost was US$ 8.88 (see Dr. Diego Pizarro, Seminario sobre café, op. cit., p. 100).

2/ See table 1 and part II.2 of this study.

function and in addition to ensure that a large share of the coffee earnings are redistributed to the benefit of the overall development of the country.1/

As may be seen in table 36, during the period following the short boom, when the international prices of coffee dropped sharply, it was possible to maintain the domestic prices paid to Colombian producers 2/ and even to increase them in the period 1980-1981, offsetting, at least partially, the substantial increase in the cost of living and the effects of the Colombian currency devaluation. Thus the share of the producers in the income generated by the exportation of coffee rose to 69% in 1980/1981 by comparison with 39% in 1976/1977.

The lag in domestic coffee price trends in Colombia by comparison with the soaring rise of the inflation and the cost of living of labourers (see table 36) shows that the national redistribution of income derived from green coffee exports may provide only slight relief from the negative effects of the transnational oligopoly on the coffee industry in the peripheral countries and ultimately on their national economies and the wellbeing of their inhabitants. It is obvious that only sweeping structural changes undertaken within the framework of the new International Economic Order may lead to more far-reaching and longer-term effects. A few changes of the kind required have been suggested in this study. The discussion and exchange of experience among the peripheral countries which export primary commodities should lead to a more extensive and profound study of the various alternatives available to the Latin American governments.

1/ In the period 1975-1979, the total tax earnings from the coffee sector were distributed between the National Coffee Fund and the budget of the government in a ratio of 60-80%:40-20% (see table 31 and part V.3 and 5 of this study).

2/ As the monthly data for 1981 show, the minimum support price policy also provided protection against the frequent short-term fluctuations.

/Table 36

Table 36

COLOMBIA: EVOLUTION OF PRICES PAID TO COFFEE PRODUCERS BY COMPARISON WITH INTERNATIONAL PRICES, THE COST OF LIVING AND THE EXCHANGE RATE (1977-1981)

(January 1977 = 100)

Period (averages)	Prices		Cost of living (labourers)	Exchange rate: Col.$/ US$ 1	Share of the producer in export earnings c/ (in %)
	To the producer a/	International b/			
1977	98.3	107.1	119.7	101.1	39
1978	98.1	74.6	139.6	107.5	51
1979	97.7	79.4	174.4	117.0	50
1980	116.6	70.7	221.8	130.0	50
1981:					
January	123.6	58.8	249.9	140.4	...
February	123.6	57.5	257.6	142.2	...
March	123.6	57.9	264.2	143.6	...
April	123.6	58.9	271.0	144.9	...
May	123.6	57.9	278.5	146.4	...
June	123.6	51.6	286.2	148.2	...
July	123.6	55.2	291.6	150.0	...
August	126.0	57.1	295.1	152.0	...
September	127.1	57.9	297.0	154.1	...
October	131.6	62.6	301.0	156.1	...
10 months average	125.0	57.5	279.2	147.8	69 d/

Source: FEDECAFE and Bank of the Republic of Colombia, data published in the Report of the General Manager of FEDECAFE to the fortieth National Congress of Coffee- Growers, Bogotá, December 1981.

a/ Highest price paid by FEDECAFE or by private exporters.

b/ The price of coffee in the category "other milds" plus two Us cents.

c/ Estimate based on the prices of a 70-kg bag of green "excelso" coffee. Coffee years.

d/ 1981 (12 months).