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The 'Latte Revolution'? Winners and Losers in the Re- structuring of the Global Coffee Marketing Chain*

Stefano Ponte

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Abstract

This paper uses a Global Commodity Chain (GCC) approach to examine the transformation of the global coffee marketing chain and its repercussions in developing countries. It focuses on shifts that have occurred in the last two decades in the international coffee trade regime, on regulation at the domestic level in producing countries, and on changes in corporate strategies and consumption patterns. These are assessed in relation to the evolution of the organisation of the chain, its mode of governance, the ownership characteristics at various 'nodes', and the distribution of income along the chain. The paper also explores how the restructuring of the coffee chain has affected different groups of actors and suggests some policy directions to address the emerging imbalances. Finally, it assesses the contribution offered by the coffee case study to wider debates that are taking place in the GCC literature.

Oh Coffee, you dispel the worries of the Great, you point the way to those who have wandered from the path of knowledge . . . All cares vanish as the coffee cup is raised to the lips. Coffee flows through your body as freely as your life's blood, refreshing all that it touches: look you at the youth and vigor of those who drink it.

Sheik Ansari Djezeri Hanball Abd-al-Kadir (1587)
quoted in Dicum and Luttinger (1999, 7-8)

1. Introduction

In this paper, I analyse the transformation of the structure and the organisation of the global coffee marketing chain. I focus on shifts that have occurred in the last two decades at three levels: (1) changes in the regulatory framework at the international level (the end of the International Coffee Agreement trade regime); (2) changes in regulation at the domestic level in producing countries (market liberalisation, privatisation of public marketing institutions, deregulation of trading and quality control practices); and (3) changing corporate strategies and consumption patterns (adoption of supply-managed inventory, consolidation, branding, emergence of speciality coffee and fair trade markets). I assess these shifts in relation to the organisational structure of the chain, its mode of governance, the ownership characteristics at various 'nodes', and the distribution of income along the coffee chain. Finally, I explore how the restructuring of the coffee chain has affected different groups of actors and how farmer groups, governments, donors and NGOs can address some of the emerging imbalances.

The main methodological instruments used in this paper are drawn from the literature on Global Commodity Chain (GCC) analysis. In this body of work, the international structure of production, trade, and consumption of commodities is disaggregated into stages that are embedded in a network of activities controlled by firms and enterprises. The systematic study of commodity chains seeks to explain the spatial organisation of production, trade and consumption of the globalised world economy (Gereffi *et al.* 1994, 2). A commodity chain in this context is seen as ‘a network of labour and production processes whose result is a finished commodity’ (Hopkins and Wallerstein 1986, 159). Specific processes within a commodity chain are represented as ‘nodes’ linked together in networks. Therefore, we can see a commodity chain as ‘a set of inter-organisational networks clustered around one commodity or product’ (Gereffi *et al.* 1994, 3), in which networks are situationally specific, socially constructed, and locally integrated (Ibid.).

In this way, globalisation and the restructuring of the world economy can be analysed through a series of macro-micro links that allow a nuanced understanding of economic processes which are too often studied only at the global level (therefore ignoring local differentiation of processes), or at the national/local levels (often downplaying the larger forces that shape socio-economic change and policy making). Adopting a macro-micro framework that cuts across these levels allows us to emphasise the heterogeneity of organisational arrangements of production and trade without losing track of common features and overall tendencies.

Although GCC theory originally centred on analyses of the manufacturing and service sectors, it has recently started to be applied to agro-food systems as well.¹ Agricultural commodities tend to fall into what Gereffi (1994, 97-100) has defined *buyer-driven* commodity chains,² in which large retailers in industrialised countries, brand-name merchandisers, and trading companies are the key actors in setting up decentralised networks of trade in developing countries. Because of the changes in distribution and retailing in industrialised countries since the 1980s, agricultural production has become more flexible, involving a heterogeneous combination of firms, types of ownership, size, and relative access to markets. As a result of increased flexibility, a commodity-based analysis can provide better insights on the organisational structures and strategies of agriculture than a sectoral approach (Raynolds 1994, 143-4).

The analysis of the coffee marketing chain is particularly important in this context for a variety of reasons. First, over 90 per cent of coffee production takes place in the South, while consumption takes place mainly in the North.³ Therefore, from a political economy perspective, the production-consumption pattern provides insights on North-South economic

¹ See, among others, Gibbon (1999) and Larsen (2001) on cotton, Calvin and Barrios (2000), Dolan *et al.* (1999) and Raynolds (1994) on fresh fruit and/or vegetables, Talbot (1997a; 1997b) on coffee, and Fold (2000) on cocoa.

² For exceptions to this rule, see Gibbon (2001) and Raikes and Gibbon (2000).

relations. Second, for most of the post-World War II period coffee has been the second most valuable traded commodity after oil.⁴ Third, attempts to control the international coffee trade have been taking place since the beginning of the 20th century, making coffee one of the first ‘regulated’ commodities. Fourth, a number of developing countries, even those with a low share of the global export market, rely on coffee for a high proportion of their export earnings.⁵ Fifth, producing country governments have historically treated coffee as a ‘strategic’ commodity; they have either directly controlled domestic marketing and quality control operations or have strictly regulated them – at least until market liberalisation took place in the 1980s and 1990s.

This paper does not cover all aspects and ‘nodes’ of the coffee commodity chain, for obvious space limitations. It aims at mapping the general development of the chain from the producer to the retail levels and focuses on selected global issues. Detailed analyses of domestic and local experiences can be found elsewhere (Ponte 2001a; Fold and Ponte 2001). In the next two sections, I lay out a brief history of coffee and the fundamental characteristics of coffee production and trade. In section four, I analyse the role of international regulation of the coffee market under the regime of International Coffee Agreements (1962-1989). In sections five and six, I examine the restructuring that has taken place in the organisation of the global coffee market in the last decade and the resulting changes in power relations within the chain. In section seven, I explore how coffee consumption is evolving in the North (the ‘latte revolution’), especially in relation to the emergence of speciality and fair trade coffees. In section eight, I provide some strategic options that may facilitate coffee farmers and producing country governments in regaining a larger share of the total income generated in the coffee chain. In section nine, I make a preliminary assessment of the insights offered by the restructuring of the global coffee chain to wider debates that are taking place in the GCC literature.

2. Coffee basics

There are several legends on the discovery of coffee as a drink. One of these narrates the story of an Ethiopian goat keeper, who noticed that his goats were behaving strangely after they ate the red berries of the coffee tree. He told of his observation to the monks of a monastery. They tried to pour boiling water over some berries and discovered that the drink helped them to be awake. It is not clear when and how coffee cultivation and drinking spread,

³ The major exception is Brazil, which is the top producer and also one of the main consuming countries in the world.

⁴ This has changed recently. In 1996/97, coffee ranked only fifth among internationally traded commodities after oil, aluminium, wheat and coal.

⁵ In Africa, for example, coffee exports in 1996-98 represented more than 50 per cent of agricultural export earnings in five countries, and more than 20 per cent in nine countries. In three of these countries, coffee exports represented more than 50 per cent of total merchandise exports, and in eight countries more than 10 per cent (see Ponte 2001a).

but there is evidence that the bush was grown in Islamic Monasteries in Yemen about 1,000 years ago. Commercial cultivation was reported in the 15th century in Ethiopia. Coffee drinking spread to the Middle East by the middle of the 16th century. The first shipment of coffee to reach Europe is said to have arrived in Venice from Turkey in 1615. The first 'café' was opened there in 1645. Coffee drinking spread quickly into the rest of Europe and from there to America. Its production also spread throughout the world, and is now carried out in Latin America, Africa and Asia.

The coffee tree requires a warm climate without sudden temperature shifts, does not tolerate frost, and needs plenty of seasonal rains. It is primarily grown in rich volcanic soils that are well drained. These conditions are normally met between the tropics of Cancer and Capricorn. Two coffee species are commercially relevant: *Coffea Arabica* (hereafter 'Arabica') and *Coffea Canephora*, also known as 'Robusta'. Both species produce 'cherries' that enclose two flat seeds (the 'bean'). Arabica coffee is susceptible to attacks by pests and diseases. Its best growing conditions are found in warmer temperate zones or in highlands of tropical zones. Robusta coffee is more resistant and can be grown between sea-level and 800 metres. The first harvest for a newly-planted coffee tree usually takes place after two years, and optimal yields are reached two to three years later. The ripening period of the cherries depends on climate and soil fertility -- usually 6-8 months for Arabica and 9-11 months for Robusta. Production of high quality beans can continue for 20 years, followed by another 20 years of declining quality production (van Djik *et al.* 1998, 7).

Coffee goes through various stages of primary processing in the country of production before being exported. The main goal of primary processing is the separation of the bean from the skin and pulp of the cherry. There are two methods for doing this: (1) in the 'wet' method, ripe cherries are harvested, pulped, fermented and washed, dried, peeled and polished; (2) in the 'dry' method, the cherries are harvested, dried and hulled. The wet process involves removal of the pulp and mucilage followed by drying. The parchment and silver-skin are removed later by hulling. The dry process involves drying of the whole cherry until the green bean inside separates from the outer layers, which are later removed by hulling. In the first case, the end result is 'Mild' (or washed) coffee, normally of the Arabica type.⁶ In the second case, the end result is 'Hard' coffee, either Hard Arabica or Robusta. The distinction is important as Mild Arabica, Hard Arabica, and Robusta coffees are traded separately. In all three cases, the end product is called 'green' coffee. Proper primary processing is one of the key determinants of coffee quality -- together with farm practices, weather conditions and soil type and fertility (Brown 1991, 3-7).

⁶ Some Robusta coffee is also processed with the wet method, but its volume in the international trade is insignificant.

Table 1: Total production of ICO-exporting members (ranked by 1999/00 production); crop years 1995/96 to 2000/01 (thousands of 60-Kg bags)

Crop year commencing	Type of coffee	1995	1996	1997	1998	1999	2000 (estimates)	Share of world production (1999)
TOTAL		85,647	102,495	95,969	106,508	114,218	112,901	
Brazil	(A/R)	15,784	27,664	22,756	34,547	32,353	31,100	28.3
Vietnam	(R)	3,938	5,705	6,915	6,947	11,264	11,350	9.9
Colombia	(A)	12,878	10,876	12,211	11,088	9,336	12,000	8.2
Mexico	(A)	5,527	5,324	5,045	5,051	6,442	6,338	5.6
Indonesia	(R/A)	5,865	8,299	7,759	8,463	6,014	7,300	5.3
Côte d'Ivoire	(R)	2,532	4,528	3,682	2,042	5,463	4,167	4.8
India	(A/R)	3,727	3,469	4,735	4,372	5,407	4,917	4.7
Guatemala	(A/R)	4,002	4,524	4,218	4,892	5,201	4,500	4.6
Ethiopia	(A)	2,860	3,270	2,916	2,745	3,505	3,683	3.1
Uganda	(R/A)	3,244	4,297	2,552	3,298	3,097	3,200	2.7
Honduras	(A)	1,909	2,004	2,564	2,195	2,975	2,300	2.6
El Salvador	(A)	2,586	2,534	2,175	2,056	2,778	2,113	2.4
Peru	(A)	1,871	1,806	1,922	2,022	2,529	2,575	2.2
Costa Rica	(A)	2,684	2,126	2,500	2,350	2,465	2,400	2.2
Kenya	(A)	1,664	1,246	882	1,172	1,433	1,175	1.3
Thailand	(R)	1,317	1,403	1,293	916	1,397	1,200	1.2
Papua New Guinea	(A/R)	1,002	1,089	1,076	1,350	1,386	972	1.2
Nicaragua	(A)	985	793	1,084	1,073	1,384	1,200	1.2
Ecuador	(A/R)	1,888	1,993	1,191	1,204	1,350	950	1.2
Cameroon	(R/A)	663	1,432	889	1,334	1,218	1,100	1.1
Tanzania	(A/R)	897	765	624	739	837	850	0.7
Congo, Democratic Rep. of	(R/A)	1,099	794	800	650	750	1,000	0.7
Philippines	(R/A)	850	890	935	685	739	775	0.6
Venezuela	(A)	1,364	1,200	986	991	717	1,100	0.6
Dominican Republic	(A)	886	519	941	422	694	680	0.6
Burundi	(A/R)	434	401	297	356	434	333	0.4
Madagascar	(R/A)	785	849	623	992	427	750	0.4
Haiti	(A)	506	429	435	442	402	530	0.4
Togo	(R)	85	290	222	321	334	330	0.3
Cuba	(A)	285	366	300	280	318	300	0.3
Rwanda	(A)	330	293	194	222	308	320	0.3
Central African Republic	(R)	108	208	115	214	210	200	0.2
Bolivia	(A)	151	133	153	150	184	195	0.2
Panama	(A)	209	211	218	192	161	170	0.1
Zimbabwe	(A)	131	174	130	147	122	180	0.1
Guinea	(R)	104	148	172	140	120	120	0.1
Malawi	(A)	91	49	61	64	59	61	0.1
Ghana	(R)	57	32	28	45	56	55	0.0
Nigeria	(R)	53	46	45	46	56	50	0.0
Angola	(R)	62	71	64	85	55	100	0.0
Zambia	(A)	27	33	40	56	55	50	0.0
Sierra Leone	(R)	44	41	50	24	50	40	0.0
Sri Lanka	(R/A)	36	37	58	35	40	45	0.0
Jamaica	(A)	43	54	46	29	39	44	0.0
Paraguay	(A)	45	40	34	34	28	50	0.0
Trinidad and Tobago	(R)	18	18	20	17	16	15	0.0
Liberia	(R)	5	5	5	5	5	5	0.0
Congo, Rep. of	(R)	12	14	3	3	3	5	0.0
Gabon	(R)	2	2	3	4	2	2	0.0
Benin	(R)	0	0	0	0	0	1	0.0
Equatorial Guinea	(R)	2	1	2	1	0	5	0.0

Source: ICO A= Arabica R= Robusta

3. Global coffee production and trade

Until recently, Brazil and Colombia were the undisputed top world coffee producers. This situation has changed in the 1990s with the impressive growth of coffee production in Vietnam (see Table 1). In 1999/00 Vietnam replaced Colombia as the world second largest producer. Brazil produces mostly Hard Arabica coffee (and some Robusta used for domestic consumption); Colombia produces Mild Arabica; Vietnam produces Robusta. Coffee export rankings broadly follow production statistics. The International Coffee Organisation (ICO) categorises exports by type of coffee. As we can see in Table 2, Mild Arabica coffees are divided into ‘Colombian Milds’ and ‘Other Milds’. Colombian Milds comprise coffees produced in Colombia, Kenya and Tanzania. The main players in the Other Milds category are Guatemala, Mexico and India. ‘Brazilian Naturals’ basically consist of Hard Arabicas from Brazil and Ethiopia. The last category includes Robusta coffees from all origins. Here, Vietnam is by far the main producer, but Côte d’Ivoire, Indonesia and Uganda are also major players.⁷ In normal supply conditions, market prices are highest for the Colombian Milds category (with selected Kenyan coffees on top), followed by Other Milds (with some Costarica and Guatemala coffees at the high end of the scale), by Brazilian Naturals, and finally the wide spectrum of Robustas (McClumpha 1988, 14).

Most international coffee trade consist of ‘green’ coffee packed in 60-Kg bags.⁸ Green coffee is available to buyers either directly from its origin or via the spot markets in the US and Europe. In theory, physical coffee can also be accessed to via the futures market, but this happens only rarely. The purpose of these markets is to provide hedging against risk rather than being a supply source (Ibid. 8). Two sets of international prices are available for coffee: (1) ICO-published prices: these are indicators of the physical trade, where each contract refers to a specific quality, origin, shipment, currency and destination; and (2) prices determined by futures markets: these are short-term syntheses of market fundamentals (production, consumption and stocks) and technical factors (hedging, trend following, reactions to trigger signals). Prices in the physical trade of Arabica coffees from various origins are set as differentials in relation to the futures price quoted at the New York Coffee, Sugar and Cocoa Exchange (CSCE). The reference price for Robusta coffees is set at the London International Financial Futures and Options Exchange (LIFFE).

⁷ The ICO classification does not take into consideration that some countries produce different types of coffee: Brazil, for example, produces Robusta as well as Hard Arabica. India, Papua New Guinea, Uganda, Cameroon, and Tanzania produce both Arabica and Robusta. These countries are classified in accordance to the type of coffee they produce the most.

⁸ Other two forms of coffee trade are instant and roasted coffee. Trade between producing and consuming countries consists mostly of green coffee and bulk instant coffee. Bulk instant coffee imported from producing countries is usually blended and re-packaged in consuming countries. The roasted coffee trade takes place almost exclusively between consuming countries. This pattern of trade comes from the fact that green and instant coffees can be stored for a long period of time, while roasted coffee loses its freshness much more quickly.

The international coffee market is characterized by relatively low price elasticities of supply and demand. Supply elasticities are low in the short run and higher in the long run because it takes at least two years for new trees to be productive and several others before they reach full production levels. Therefore, the supply response in the short term is possible only by changing the quantity of resources used for inputs and labour application, not by increasing the productive area as is the case for annual crops. Demand elasticities are also low, with coffee demand dropping significantly only at times of large increases of coffee prices. The peculiar characteristics of the price elasticities of supply and demand lead to highly variable prices in the world coffee market. A situation of supply shortage results in high coffee prices without a significant reduction of consumption. Likewise, supply reacts slowly in the short run while new plantings take place. In the long run, this leads to a higher than necessary response as new coffee trees mature. A situation of supply shortage may then be followed by one characterised by oversupply and low prices. An opposite bust period then begins -- usually lasting longer than the boom period.

Table 2: Exports by major ICO-exporting member to all destinations (60-Kg bags)

	Mar-00 to Feb-01
<u>TOTAL</u>	<u>88,607,673</u>
<u>Colombian Milds</u>	<u>11,539,133</u>
Colombia	9,499,242
<i>Kenya</i>	1,214,199
<i>Tanzania</i>	825,692
<u>Other Milds</u>	<u>28,059,771</u>
Guatemala	4,771,031
Mexico	4,659,096
India	4,460,021
Honduras	2,915,806
Peru	2,298,292
El Salvador	2,256,138
Costa Rica	2,026,895
Nicaragua	1,327,541
Papua New Guinea	1,055,380
Ecuador	692,076
<u>Brazilian Naturals</u>	<u>19,999,823</u>
Brazil	18,154,618
Ethiopia	1,834,205
<u>Robustas</u>	<u>29,008,946</u>
Vietnam	11,958,220
Côte d'Ivoire	5,793,381
Indonesia	5,248,067
<i>Uganda</i>	2,641,651
Cameroon	1,222,145
Thailand	843,220
Congo, Dem. Rep. of	356,429
Madagascar	324,006
Togo	279,381
Central African Republic	207,253

Source: ICO

Another important feature of the coffee market is that consumption tends to increase as income rises, but levels off at the highest income levels. For this reason, the coffee market is considered 'mature' due to the relatively stable and low level of growth of consumption (about 1 per cent per year in 1987-97). Low levels of growth of consumption have led roasters and retailers to invest, on the one hand, in product innovation and segmentation in order to increase value added,⁹ and, on the other hand, in efforts to 'cultivate' markets where the potential for growth of consumption is most promising (especially Eastern Europe and the traditionally tea-drinking countries of Asia). Among consuming countries, Scandinavian countries (which have the highest level of consumption per capita in the world) and Germany prefer Mild coffees in their blends. Robusta coffee is a key component in espresso coffee and darker roasts, therefore important in France and Italy. The US and UK markets prefer lighter roasts in general, but require a wide spectrum of qualities. Historic trading links are still important in shaping the international coffee trade. A sizeable proportion of East African coffee finds its way to Germany and the UK. France maintains close links with Côte d'Ivoire and other Francophone countries. Dutch trading links with Indonesia remain important as well (McClumpha 1988, 12).

International traders are generally concerned with the uniformity and consistency of green coffee. It is essential for them to know the type of coffee (Arabica or Robusta), the type of primary processing (wet or dry), and the country of origin (in some cases even regions or specific estates/cooperatives within a country). In order to achieve a proper valuation of coffee, buyers also need to know the official grade standard. These standards vary from origin to origin, but generally describe the size of the bean, its density, shape and the number of defects in a standard weight sample.¹⁰ In some countries, and for certain types, coffee is sold simply 'by description'. This means that coffee type, processing type, origin and official grade standard are sufficient information for a buyer to assess the value of coffee. This happens especially for Robusta (a less valuable and more uniform coffee), which is usually shipped without the need for the buyer to inspect a pre-shipment sample. If the shipment received does not conform to the description in the contract, the two parts will seek international arbitration, or the seller may settle for a price discount.

Roast analysis and cup testing of pre-shipment (or pre-auction) samples seek to evaluate the intrinsic value of the coffee bean for those characteristics that can not be evaluated by a grade standard description only. These tests are carried out primarily for the more valuable Arabica coffees, and especially where quality variation within an origin is high.¹¹ By looking at a roasted coffee sample, a seller or buyer can check the evenness of the roast and assess whether coffee was over-dried (if this is the case, the beans will break). By looking at the

⁹ One example is the explosive growth of speciality coffee retailer chains and cafés in the US (see section seven).

¹⁰ Defects are, for example, black or broken beans, smelly beans (stinkers), presence of stones and other foreign material.

¹¹ In Colombia, where coffee quality is relatively uniform, cup testing is less important.

colour of the roast, they can detect whether coffee was over-fermented or poorly washed. Cup testing consists in brewing a sample of coffee and evaluating its body, aroma, acidity, and presence of foreign flavours in descriptive terms (in a much similar way to what happens in wine testing). In those countries where an export auction takes place, these tests are performed for each sample of a consignment. The sellers may perform them to assess the reserve price to be set at the auction. The regulatory body running the auction carries out these tests to set the reserve price as well, and for quality control monitoring. The buyers (exporters) perform them to make sure they purchase exactly the type of coffee required by their clients (or parent company). In the last few years, it has also become common for clients of exporters (international traders or roasters) to require pre-shipment or even pre-auction samples from exporters. This has been made possible by advances in logistics and the expansion of international courier services.

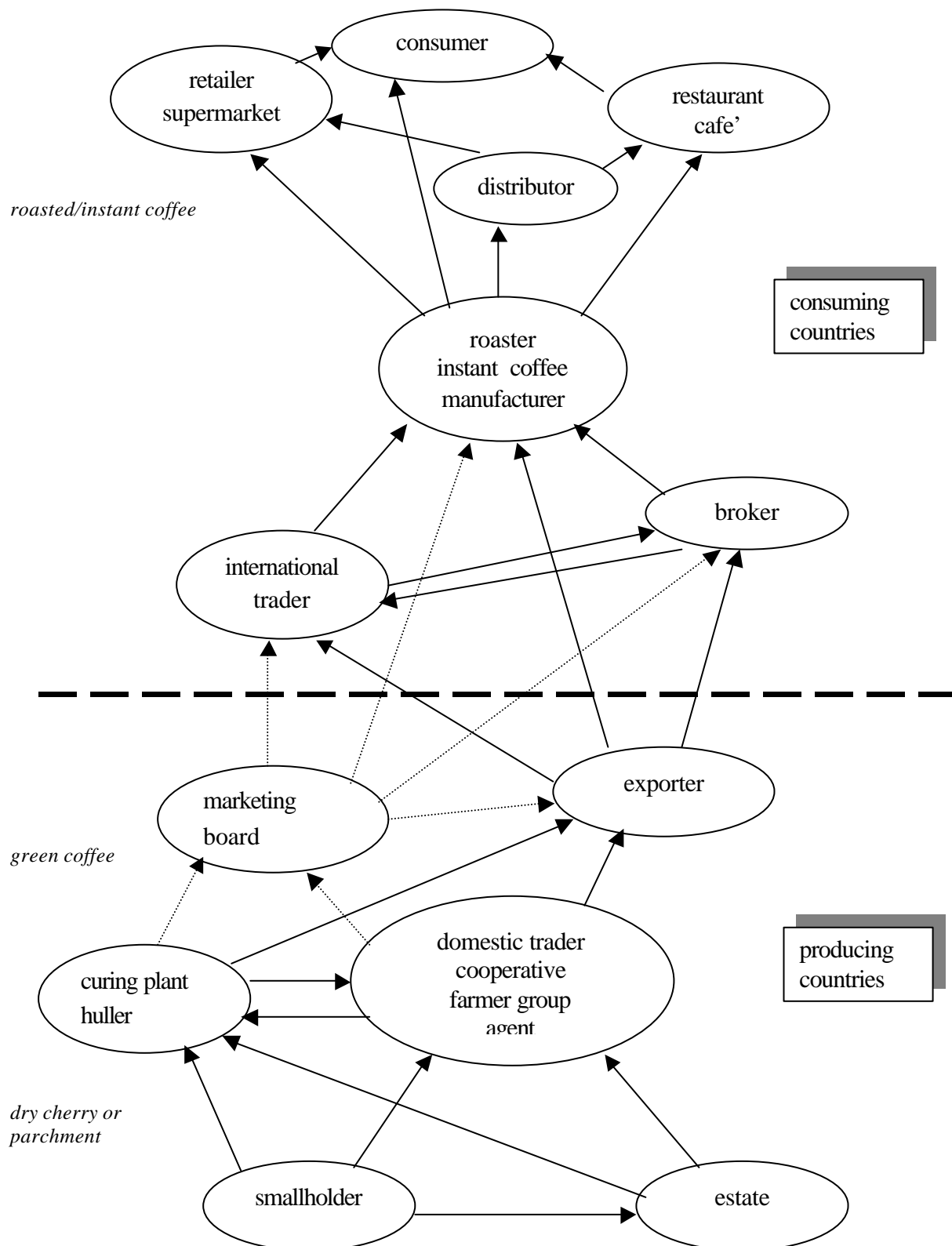
After shipping and arrival in the port of destination, coffee is cleaned again. The international trader may sell it directly to a roaster, or to a broker (see Figure 1). Roasters blend various coffees together (unless they sell a coffee as 'single origin'), roast the blend, and ground it (unless they sell the coffee as whole bean). Blending may be preceded by a decaffeination process. The production of instant coffee requires a separate manufacturing process (Brown 1991, 7-11).

4. International regulation: The International Coffee Agreements (ICAs)

Coffee was one of the first commodities for which control of world trade was attempted, starting in 1902 with the 'valorisation' process carried out by the Brazilian state of Sao Paulo. This process involved state action to raise the price of coffee, which was made possible at that time by the large share of production of Sao Paulo in terms of world coffee production (between 75 and 90 per cent) (Lucier 1988, 117). Pre World War II attempts at manipulating the world coffee market were all centred around Brazil. In the post-war period, control schemes involved other Latin American countries as well. The first International Coffee Agreement (ICA) was finally signed 1962 and included most producing *and* consuming countries as signatories. Under the ICA regulatory system (1962-1989), a target price (or a price band) for coffee was set, and export quotas were allocated to each producer. When the indicator price calculated by the International Coffee Organisation (ICO) rose over the set price, quotas were relaxed; when it fell below the set price, quotas were tightened. If an extremely high rise of coffee prices took place (as in 1975-77), quotas were abandoned until prices fell down within the band. Although there were problems with this system, most analysts agree that it was successful in raising and stabilising coffee prices (Akiyama and Varangis 1990; Bates 1997; Daviron 1996; Palm and Vogelvang 1991).

The relative success of the regime is attributed to various factors: (1) the participation of consuming countries in the workings of the quota system; (2) the existence of producing

Figure 1: General structure of the coffee marketing chain



Note: with market liberalisation, links to and from marketing boards (dotted in the figure above) are disappearing.

countries as 'market units', where governments were in control of decisions concerning exports; (3) Brazil's acceptance of a shrinking market share that resulted from successive ICAs; and (4) a common strategy of import substitution in producing countries, which required maximum mobilization of export earnings (therefore high commodity prices) (Daviron 1996, 86-9).

At the same time, the ICA system was undermined by free-riding and squabbling over quotas. Other problems were the increasing volume of coffee traded with (or through) non-member importing countries (at lower prices), the fragmentation of the market, and the increasing heterogeneity of development models (as Brazil and Indonesia moved towards a more export-oriented industrial strategy) (Daviron 1993; 1996). Furthermore, quotas were relatively stable because they were costly to negotiate. As a result, the mix of coffee supplied by producers tended to remain stable, while in the 1980s consumers in the US progressively switched from soluble coffees (that employ a high proportion of Robusta) to ground coffees (that use a higher proportion of Arabicas). The rigidity on the supply side worried roasters, who feared that competitors could get access to cheaper coffee (from non-member countries). This undermined their cooperation within the ICA system. Finally, the Cold War politics of the US in relation to Latin America had changed in the 1980s. The US did not perceive the left in Brazil as a real threat anymore, and the rigidity of quotas meant that the US administration could not punish its 'enemies' in Central America (Bates 1997, 172-5). The combined result of these changes led to the failed renewal of the ICA in 1989.

5. The post-ICA coffee market

The end of the ICA regime has profoundly affected the balance of power in the coffee chain. From a fairly balanced contest between producers and consumers within the politics of the commodity agreement, market relations shifted to a dominance of consuming country-based operators (including their agents based in producing countries) over farmers, local traders and producing country governments. This has been accompanied by lower and more volatile coffee prices, a higher proportion of the income generated in the chain retained in consuming countries, and a declining level of producer-held stocks.

In relation to price levels, we can observe that the average real indicator price for 1990-93 was only 42 per cent of the average of the final four years of ICA activity (1985-88). Even accounting for the price rise of 1994-97 due to frost and drought in 1994/95 in Brazil, and the speculative hike of 1997, the average composite price for 1994-1997 was still 20 per cent below the 1985-88 period (Gilbert 1998). In 1993, with the establishment of the Association

of Coffee Producer Countries (ACPC),¹² producing countries started again attempts to re-install some control over supply flows through an export retention scheme. Coffee retention, however, was not successful in improving coffee prices. The process of liberalisation of domestic coffee marketing in producing countries has made it more difficult for them to control stocks and the flow of exports. Also, the scheme was lacking proper monitoring and punitive clauses. Some of the major producers did not join the scheme,¹³ and other member countries withdrew from it in 1998/99. Finally, during the same season, Brazil exceeded its quota by six million bags.

Chronic oversupply, due to technical innovations and new planting, also contributed to the generally decreasing level of international coffee prices experienced in the last decade. Global 2000/01 coffee production is forecast at a record-setting 112.9 million bags, the third consecutive year in which world output has exceeded 100 million bags (see Table 1). Stocks in consumer markets, the most obvious index of coffee availability, have been rising (Prudential Securities Futures Research: Coffee, 28/06/00).¹⁴ In May 2000, ACPC adopted a new retention plan that started to be operative on October 1, 2000. The plan targets the retention of 20 per cent of total world production as long as the 15-day moving average of the ICO composite price indicator stays below 95 cents per pound. Major non-member producers have provided their support to the plan. However, there are doubts among market operators on whether these countries have the urgency and the will to make the plan succeed.

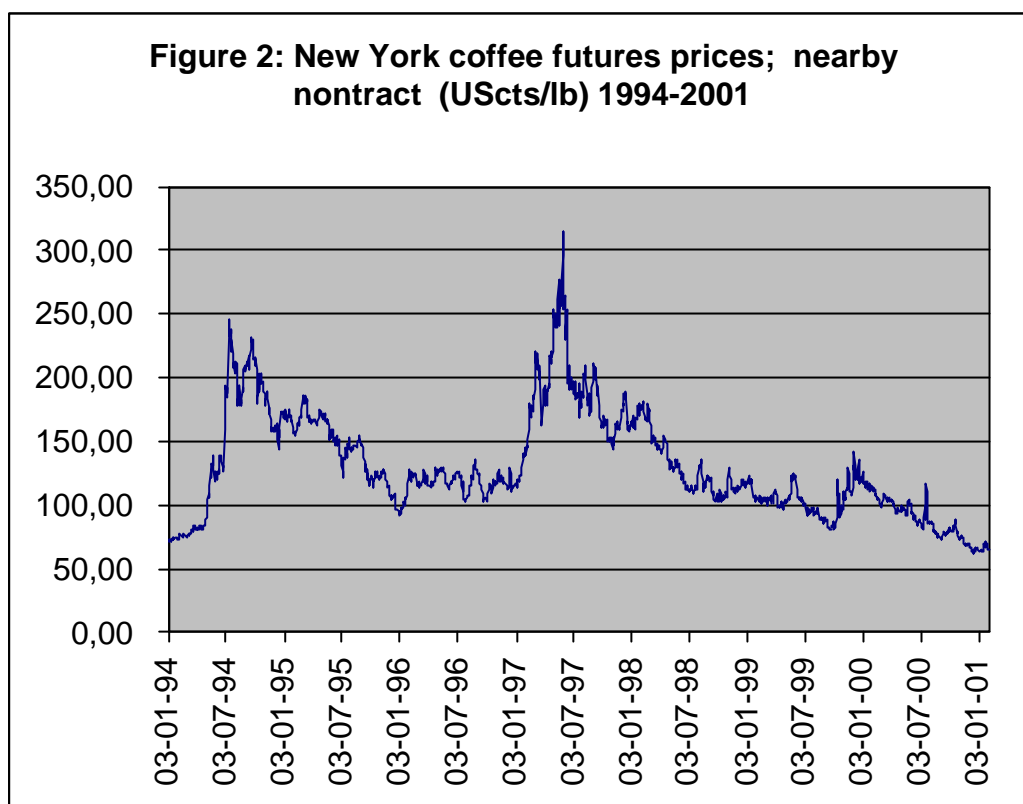
Participation in the plan by non-members is largely voluntary. Some of these countries have stated that retention has to be cost-free. Mexico, for example, aims at achieving 'export retention' by increasing consumption in government-controlled institutions. A strong increase in production in 2001/02 has also been forecast. This makes it likely that export retention levels will have to be increased further. The retention plan does not include provisions for destroying stocks, therefore does not address the fundamental problem of over-production. Even though year-to-year fluctuations of the global production volume are inherent in the world coffee market, the long-term trend is generally perceived on the upward side. This makes the likelihood of the plan succeeding in raising prices unlikely. So far, it has failed to do so. The average ICO composite price indicator for May 2000 (when the retention plan was signed) was 69.23 cents per pound. By October 2000 (the official start of the plan) it had dropped to 56.40. In March 2001, the average was 48.52 cents per pound. Producing countries are slowly realising that they cannot influence prices just by temporarily withdrawing coffee from the market. Indonesia and Brazil have recently proposed the creation of a quota system to limit coffee production, rather than export (Financial Times,

¹² Currently, the ACPC has 14 ratified members: Angola, Brazil, Colombia, Costa Rica, DR Congo, El Salvador, India, Indonesia, Ivory Coast, Kenya, Tanzania, Togo, Uganda and Venezuela. Together, they make up nearly 85 per cent of world coffee supply. Uganda is presently considering a withdrawal from ACPC.

¹³ Vietnam (No. 2 world producer, ranked by volume of 1999/2000 crop), Mexico (No. 4), and Guatemala (No. 8).

¹⁴ Coffee stocks in the USA have risen from 2.7 million bags in May 1999 to over 5 million bags in January 2001. May 2000 was the first time since 1994 that stocks topped 5 million bags.

2/5/01). However, it is not yet clear how they intend to implement and monitor such an agreement.



Source: CSCE

In the 1990s, lower coffee prices have also been accompanied by a higher level of price volatility. Price volatility is not a new phenomenon in the coffee market. A major 'traditional' factor in volatility is that coffee yields are vulnerable to changes in temperature and rainfall, as well as disease. Frosts and drought in Brazil have normally led to sudden upward movements in coffee prices. The delay between new planting and production can also contribute to magnifying the price movements in the coffee cycle. However, something qualitatively different took place in the 1990s. The final eight calendar years of ICO activity were characterised by monthly nominal price variability of 14.8 per cent. This indicator increased to 37 per cent in the 1990-97 period (Gilbert 1998) and to 43 per cent in the 1998-2000 period (CSCE data). Three causes of increased price volatility in the coffee market can be identified: (1) the end of price stabilization mechanisms that were built in the quota system of the ICA regime; (2) increased activity in the coffee futures market; and (3) the adoption of supplier-managed inventory systems by roasters. In the next paragraphs I will briefly discuss the last two points.

In 1980 the amount of coffee traded in the futures market was only around four times the coffee traded in the physical market. By the early 1990s, the ratio had risen to 11 times (van

Dijk *et al.* 1998, 45). Futures markets allow market transactors to fix their prices in advance of delivery so that they can hedge their price volatility risk. However, futures contracts lose much of their hedging function when the price of futures contracts is too volatile. The volatility of futures prices is normally triggered by market 'fundamentals' (demand-supply-stock relationships), but is magnified by speculative activity. In the last decade, investment funds have become increasingly active in commodity markets. Because managed funds operate on the basis of trend-following, 'trigger signals' (which may not necessarily be linked to the actual conditions of supply and demand) tend to cause larger movements in and out of the market than if the market was operated by the coffee industry alone (Crowe 1997). On the one hand, this additional activity increases liquidity in the market. On the other hand, the increased price volatility that ensues affects those actors who do not have access to hedging instruments -- farmers and small-scale traders in producing countries (Gilbert, 1996).

Coffee industry operators may have contributed to increased volatility as well. Large roasting corporations in the mid-1990s started carrying out 'supplier-managed inventory' (SMI) systems. This has allowed roasters to out-source supply and quality risk to trading houses. In this way, roasters can get access to the coffees they need through forward contracts with trading houses. Successful management of SMI on the part of roasters requires at least three key conditions: (1) a close balance between supply and demand, or a supply surplus; (2) a level of trader-held stocks that is greater than the volume of coffee held by roasters; and (3) supply conditions of various types and origins of coffee that do not force roasters to change blends in ways that would not satisfy their consumers.¹⁵ According to Lødder (1997), not all these factors were present in 1997. Roasters found themselves short of Arabica and scrambled for coffee purchases, triggering a panic-buying situation that led to a major price hike. In later years, roasters seem to have been able to carry out a more cautious SMI system successfully.

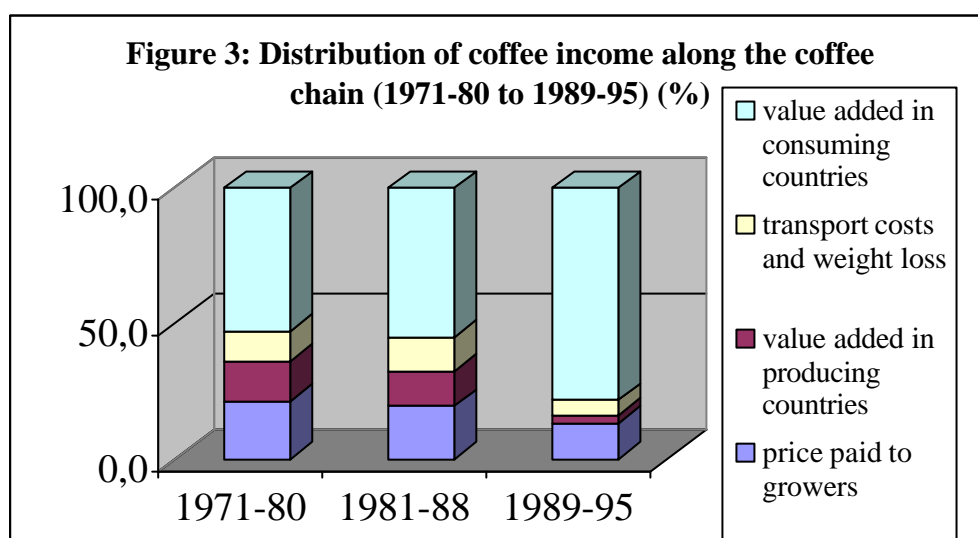
The collapse of the ICA regime and increased consolidation in the coffee industry (see section six) have also affected the distribution of total income generated along the coffee chain.¹⁶ Talbot (1997a, 65-7) estimates that in the 1970s an average of 20 per cent of total income was retained by producers, while the average proportion retained in consuming countries was almost 53 per cent (see Figure 3).¹⁷ Between 1980/81 and 1988/89, producers still controlled almost 20 per cent of total income; 55 per cent was retained in consuming countries. After the collapse of ICA in 1989, the situation changed dramatically. Between 1989/90 and 1994/95, the proportion of total income gained by producers dropped to 13 per cent; the

¹⁵ Roasters producing high-quality blends need to have greater cover (store a larger number of varieties and origins) than roasters that produce 'traditional' blends. The latter are able to substitute coffee types more readily than the former.

¹⁶ Talbot (1997a, 63) defines the total income generated along the coffee chain as 'equal to the total amount of money spent by consumers to purchase coffee products for final consumption'.

¹⁷ The remaining shares of total coffee income are: (1) transport costs and weight losses; and (2) value added in producing countries.

proportion retained in consuming countries surged to 78 per cent.¹⁸ This represents a substantial transfer of resources from producing to consuming countries, irrespectively of price levels. The share of income retained by producers in the last two-three years is likely to have dropped further due to the current situation of oversupply and low prices for green coffee and the ability of roasters to maintain retail prices at relatively stable levels. While green coffee prices almost halved between December 1999 and January 2001 (see Figure 2), average retail prices (in the US) decreased by less than 4 per cent (USDA data). This suggests that not only gross margins have increased for roasters, but also profits.



Source: Adapted from Talbot (1997a: 65-7)

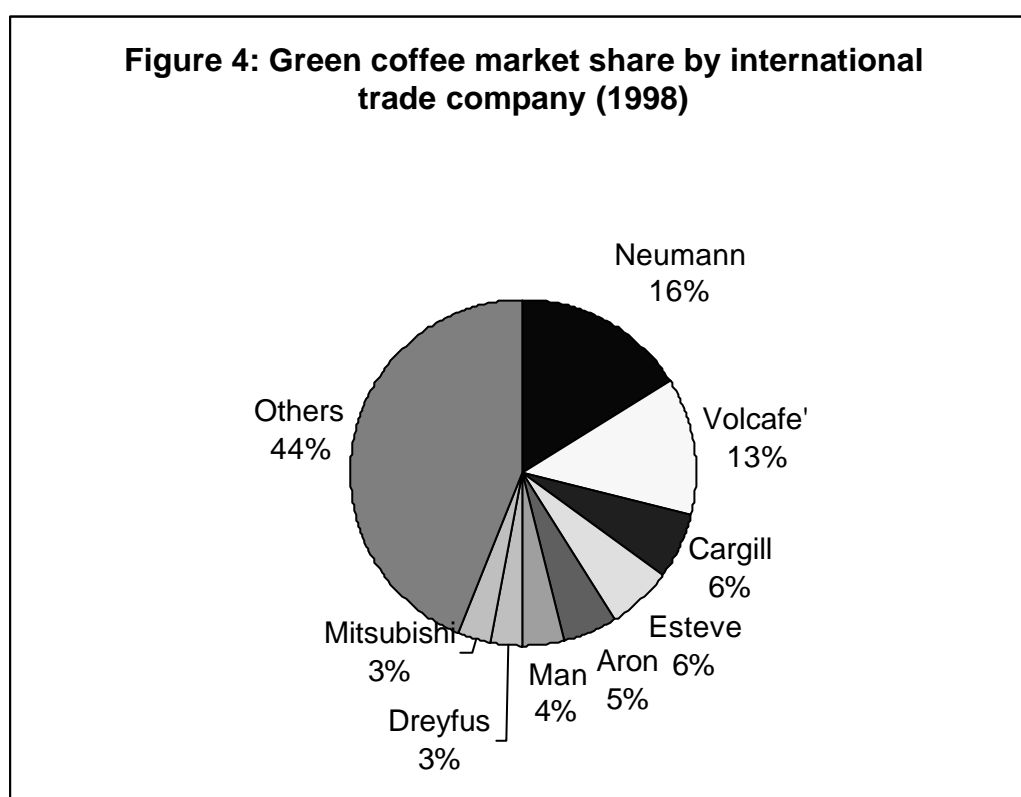
Finally, the end of the ICA regime meant that the bureaucracy that was needed to monitor exports and ensure compliance with quota restrictions was no longer needed. This, coupled with the general switch in economic thinking in the 1980s and 1990s away from public intervention in markets, led to the dismantling of coffee boards, institutes and other quasi governmental bodies that regulated export sales. As a result, the capability of producing countries to control exports and to build up stocks has dramatically decreased. Present producer-held stocks are roughly at the lowest level in 30 years.¹⁹

¹⁸ Talbot's (1997a) calculations are based on weighted average prices for all ICO member countries at various nodes of the chain. An alternative approach is to calculate the distribution of value along specific producer-consumer country chains. Peluassy (1999) has applied this method to the Côte d'Ivoire-France and the Costa Rica-Germany chains. In 1994, the grower's share of total retail price was 13.8 per cent in Côte d'Ivoire and 14.6 per cent in Costa Rica. Value added in consuming countries was 43.4 per cent in France and 71.5 per cent in Germany. These results fall in line with Talbot's average distribution for the post-1989 period. The main difference is the lower proportion of value added accrued in France due to lower taxation (coffee from Lomé countries enters duty free in the EU).

¹⁹ Producer-held stocks are forecast at 21.2 m bags in 2000/01 (Prudential Securities Futures Research: Coffee, 28/06/00).

6. Market power and corporate strategies in the global coffee chain

In the previous section I have argued that there has been a general shift of power from producing to consuming countries in the coffee marketing chain following the end of the ICA regime. Power relations between producers and buyers have also become more complex. Domestic market liberalisation in producing countries meant that states as such can not be considered 'market units' anymore (Daviron 1996). Grower organisations have not been able to substitute governments as organisers of coffee exports. 'Local' exporters have not been able to raise necessary funds to compete with international traders, and have now either disappeared or allied themselves with international traders. The general trend has been a strengthening of the position of roasters *vis à vis* other actors.

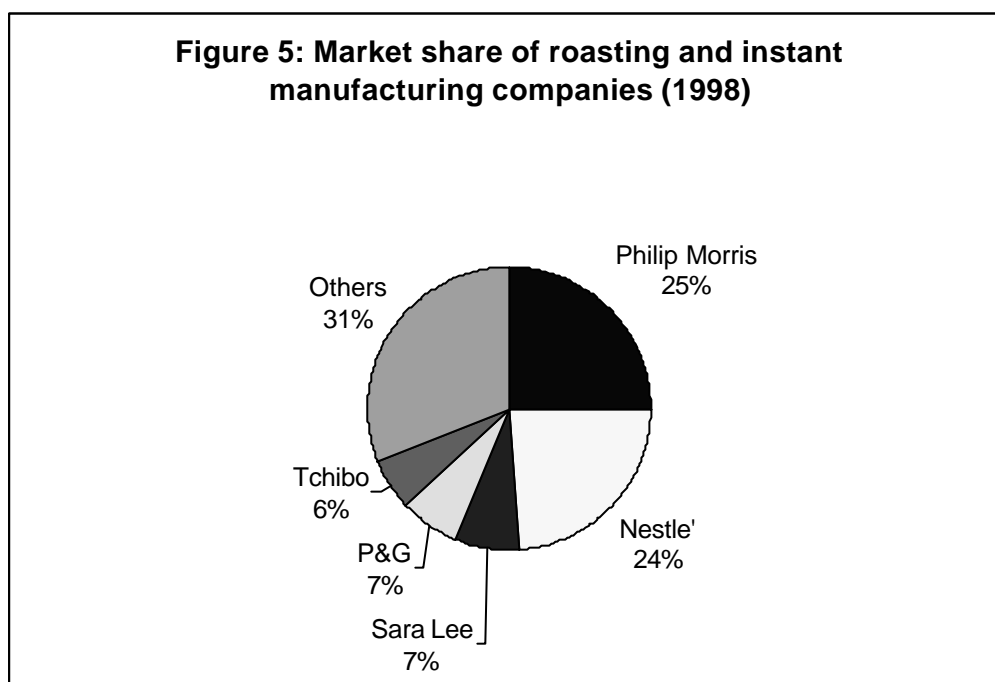


Source: van Dijk *et al.* (1998, 34).

International traders went through considerable restructuring in the last two decades. Mid-sized traders with un-hedged positions suffered major losses. They also found themselves too small to compete with larger ones. As a result, they either went bankrupt, merged with others, or were taken over by the majors.²⁰ Therefore, the market has become more concentrated. In 1998, the two largest coffee traders (Neumann and Volcafé) controlled 29 per cent of total market share, and the top six companies 50 per cent (see Figure 4). At the same time, prospects are good for smaller and specialised companies that trade in the speciality coffee market (high quality and specific origins). With some exceptions, there has been little vertical

²⁰ Recent take-overs include Rothfos by Neumann, SICAFE by Bolloré, and ACLII by Cargill. In 2000, Cargill sold its coffee interests to ECOM.

integration between roasters and international traders.²¹ As a result of roasters' outsourcing of supply management, traders have had to strengthen their supply network (van Djik *et al.* 1998, 34-5). This has taken place through coordination (mostly pre-financing) or vertical integration with local exporters. In some countries, international traders have moved upstream²² all the way to domestic trade and in some cases to estate production. International traders are likely to continue investing in operations in origin countries so that they can cater to the needs of major roasters.



Source: van Djik *et al.* (1998, 34).

<i> Holding company</i>	<i> Affiliated companies and brands</i>
Philip Morris	Kraft Foods, Jacob Suchard, Maxwell House, Splendid, Grand Mère, Carte Noir, Lyons, Birds, Brim, Gevalia, Maxim
Nestlé	Taster's Choice, Nescafé, Hills Brothers, Lite, Sarks, MJB
Sara Lee	Douwe Egberts, Merrild, La Maison du Café', Marcilla, Soley
P&G (Procter & Gamble)	Folgers, Millstone, High Point
Tchibo	Eduscho

²¹ Exceptions are represented by Decotrade, the trading arm of Sara Lee/Douwe Egberts, and Taloca, which is owned by the Jacobs Suchard/Kraft group (Philip Morris). Tchibo also has a trading arm that is very active in Kenya and Tanzania. Roasters/traders, however, do not rely on their trading arms alone for their supply needs. They source from a variety of other international traders as well.

²² In this paper, by 'upstream' I mean movement towards producers. By 'downstream' I mean movement towards consumers.

The level of concentration in the roaster market had reached a level even higher than for international traders. Figure 5 shows that the top two groups combined (Nestle' and Philip Morris) control 49 per cent of the world market share for roasted and instant coffees. The top five groups control 69 per cent of the market. Nestle' dominates the soluble market with a market share of 56 per cent. International traders argue that roasters have gained increasing control of the marketing chain in recent years. Presently, coffee is considered a buyer's market because of over-supply and of roasters' successful implementation of supply-managed inventory. It was a seller's market from late 1996 to mid-1998; until the beginning of 1999 it was still a relatively favourable situation for traders and exporters, but afterwards the market collapsed to the advantage of roasters.

Roasters seem to have little interest in vertical integration upstream in the current market conditions.²³ They seem better off concentrating on marketing and branding, while leaving supply to a network of independent traders. Some roasters (such as Nestle') are said to source not only from a variety of international traders, but also directly from some 'local' exporters. The aim is to allow these exporters to compete with international traders in strategic origins. This allows the roaster to be less dependent on any actor, and especially on major traders. Furthermore, supply-managed inventory and more flexibility in developing blending formulas have made roasters less vulnerable to shortages of particular types of coffee in recent years. Shortages of Colombian coffee have been offset by greater use of Central American Milds. Another example of substitution is the greater use of Mexican beans in place of Brazilian. The new technique of steam-cleaning Robusta allows roasters to improve its quality and to substitute some Arabicas with premium-grade Robustas.

Another trend that seems to be emerging in the industry is one towards the creation of a system of first-line and second-line suppliers, subject to price premia and discounts. Roasters tend not to accept coffee for their blends from countries that cannot guarantee a reliable minimum amount of supply (in the case of Arabica, around 60,000 tons a year) (Raikes and Gibbon 2000). As a result, on the one hand, minor producers may become increasingly marginalized in the future -- without necessarily increasing the bargaining power of major producers *vis à vis* roasters. On the other hand, this has pushed some international traders to be (directly or indirectly) involved in domestic trade in major producing countries even though these operations may not be profitable (Uganda, for example), as long as they can satisfy their major roaster clients.

As a result of these factors, no major form of coordination between traders and roasters has emerged so far. The 'traditional' market, as long as there is oversupply and roasters can manage SMI effectively, is likely to remain governed by arms-length relationship and/or by forward contracts of short duration (under 12 months). However, the next section will show that in the speciality coffee sector, where brand development in relation to a particular origin

²³ One exception is Tchibo, which has vertically integrated all the way into estate production in Tanzania.

or estate requires security of supply, roasters may be pushed towards closer forms of coordination with international traders and exporters in the near future.²⁴

7. The ‘Latte Revolution’? Speciality coffee and the changing world of consumption

Globally, most coffee for in-home consumption is purchased in supermarkets. The food retail sector is highly concentrated in the US, UK and Northern Europe and plays a dominant role in the food marketing chain. Yet, through consolidation and with massive investment in advertising their brands,²⁵ roasters have managed to keep control of the coffee chain. This happened in spite of the development of private coffee labels by supermarkets. As a result, supermarkets’ retail margins for coffee have remained generally lower than for the average food portfolio. In some countries, such as the US, retailers sell coffee even at a loss in order to ‘generate traffic’. Retailers need to stock coffee because consumers expect them to do so. They can attract customers with relatively cheap coffee and entice them to buy other, higher-margin items during their visit. Furthermore, coffee sales have recently moved into even lower profit margin outlets, such as warehouse and discount stores. In 1997, ten per cent of total retail coffee purchases in the US were made at Wal-Mart (Dicum and Luttinger 1999, 114, 159).

Does this mean that roasters will continue their undisputed domination of the coffee chain in the future? In the last section, I have argued that barriers to entry in the ‘traditional’ coffee marketing chain have increased in both trading and roasting, and that strategic choices made by roasters in the last decade have shaped the reactions of all other actors upstream. Recent signals, however, suggest that a fragmentation of the market is taking place. The emergence of new consumption patterns, with the growing importance of single origin, fair trade, and organic coffees, the proliferation of café chains and speciality shops, and increasing out of home consumption poses new challenges to ‘traditional’ roasters. They are used to sell large quantities of relatively homogeneous and undifferentiated blends of mediocre to poor quality. According to coffee industry analysts, these roasters have been slow at changing long-established ways of carrying out business and advertising.

Major coffee roasters lost their regional image and their focus on localized taste preferences a long time ago. In the US, regional roasters such as Folgers, Hills Brothers, and Maxwell House became national in scope and then started being bought by food conglomerates as early

²⁴ Vertical integration issues are more complex in the case of instant coffee, where a number of manufacturers have installed plants in coffee producing countries. For an exhaustive treatment of this sub-sector of the coffee industry, see Talbot (1997b, 133).

²⁵ Usually, advertising of instant or roasted coffee takes place in relation to national-level brands. An exception is Nestlé, which is a truly global brand.

as the post-World War I period.²⁶ When they became part of major industrial empires, coffee roasters had to move away from a focus on quality and locality. They started to concentrate on consistency in price, packaging and flavour. As a result, roasters homogenised blends. They started to use cheaper beans and cut down roasting times to reduce weight loss and mask the poor quality of the beans. Overall coffee quality decreased. As brand competition took the fore in corporate strategies in the US, the product itself became of secondary importance. Homogenisation and mass marketing of coffee further increased with the gaining importance of instant coffee after World War II. By competing almost exclusively on advertising, the major roasters stripped off coffee of most of its charm and appeal even as per-capita consumption started to decline after 1962. On the contrary, in Europe coffee standards remained higher due to cultural factors and different patterns of consumption even after multinationals moved into the coffee market (Dicum and Luttinger 1999, 116-63).

It is in the background of these changes that the speciality coffee industry emerged as an important player in the market, first in the US and later in Europe. One of the characteristics of speciality coffee is that it means different things to different people. Nowadays, the term covers basically all coffees that are not traditional industrial blends, either because of their high quality and/or limited availability on the producing side, or because of flavouring and/or packaging and ‘consumption experience’ on the consumption side (International Coffee Organization *et al.* 2000).

The evolution of speciality coffee cannot be appreciated without making a reference to the ‘Starbucks factor’. Starbucks was founded in 1971 in Seattle, following the steps of Peet’s, another quality roaster based in Berkeley. As other speciality operators, Starbucks spent most of the 1980s building a loyal customer base and ‘educating’ consumers on the qualities of fine coffees. The breakthrough that made Starbucks a stunning success was creating a café atmosphere where customers could hang out and consume an ‘experience’ at a place that was neither home nor work (the ‘Third Place’).²⁷ This took place at the same time as other consumer products moved from mass-production and marketing to being recast as more authentic, flavourful and healthy (micro-brewed beer, speciality breads, organic vegetables). By combining ‘Third Place’ consumption and the possibility for consumers to choose type, origin, roast, and grind, Starbucks managed to de-commodify coffee. It sold coffee ‘pre-packaged with lifestyle signifiers’ (Dicum and Luttinger 1999, 153). By 1997, Starbucks was operating 2,000 outlets (mostly directly owned) in six countries. In 1998, it entered the European market through the acquisition of the London-based Seattle Coffee Company and plans the opening of 500 outlets in the continent by 2003.

Accompanying this growth in café chains, there has also been an explosive increase in the number of roasters, although the smallest 1,900 roasters in the US still control only 20 per

²⁶ Maxwell House was bought by General Foods back in 1928. Folgers was taken over by Procter & Gamble in 1963. General Foods was eventually taken over by Philip Morris in 1985 and merged with Kraft in 1995.

cent of the domestic market. As recently as 1987, the three major roasting companies in the US held almost 90 per cent of the retail market. By 1993 they had lost 12 per cent of the market share to Starbucks, other regional cafés and speciality roasters (Ibid.). Speciality coffee consumption is growing rapidly in 'traditional' consuming countries, whereas regular coffee consumption is stagnating. It is estimated that the number of Americans drinking speciality coffees on a daily basis will grow from 20 to 27 million in 2001, up from only seven million in 1997 (Financial Times, 27/04/01).

Traditional roasters have been slow in responding to this new phenomenon. They have put darker roasts in the market and created their own speciality brands, but consumer response has been poor so far. One interesting inroad that some industrial suppliers are experimenting with is offering 'high quality' coffee roasted on the spot by computerised roasters in large discount stores. In this case, it is not quality that makes the coffee 'better'. These coffees are mediocre and are bought in bulk. Their 'selling point' is that they are freshly roasted. They also sell at much cheaper prices than in speciality stores. Another likely future strategy for the mainstream roasters to conquer back market share will be acquisition of smaller speciality roasters and café chains.

Starbucks, on its side, has adopted fairly mainstream corporate strategies. It has acquired competing chains, has opened outlets in neighbourhoods with traditional cafés to drive them out of business (Wal-Mart style). It has also entered into joint marketing programmes with other corporate giants (PepsiCo, Barnes & Noble, Capitol Records, United Airlines). By becoming another large corporation and by providing a homogenised retail experience with a consistent but not exceptionally good product, Starbucks has in many ways become the opposite of what independent coffee houses perceive themselves to be. Furthermore, as café chains consolidate, quality *per se* may not be as important in the future. If chains get bigger, they (re)commoditise and simplify business. Higher sales entail more centralised buying requirements and more difficult relations with smaller suppliers. They also entail more prominence for blends rather than 'straight origins' (International Coffee Organization *et al.* 2000). Therefore, more consumption of speciality coffee may not entail increased used of high quality coffee.

Whether this is the case or not, 'the Starbucks phenomenon ... has led a charmed life and changed forever the ways in which we engage this compelling and ancient drink. It is quite likely that the world of coffee a few decades hence would be unrecognisable to those who suffered through the miserable, watery decades that preceded the coffee-bar explosion' (Dicum and Luttinger 1999, 156). These changes may have revitalized interest for coffee in consuming countries and new (higher value added) ways of consuming it. Still, it is unclear whether speciality coffee holds the same promise for coffee producers, who are facing the lowest prices for green coffee in decades. What difference does it make to a smallholder if a

²⁷ The term 'Third Place' was coined by Oldenburg (1989).

consumer can buy a 'double tall low-fat soy orange decaf latte', or if speciality beans are sold at \$12 per pound in the US if he/she gets less than 50 cents for the same pound of coffee?

8. What does this all mean for development in producing countries? Some strategic options for producers, governments and donors

Promoting retention schemes or production quotas again?

In a little over a decade, the global coffee market has changed dramatically. Coffee producing countries have found themselves in an increasingly difficult situation. Previous to 1989, the ICAs (and their in-built consuming country cooperation) had allowed them to benefit from relatively stable and high prices. In 1985, only 15 out of the major 51 producing countries had domestic coffee markets run by the private sector (Akiyama 2001). The rest controlled domestic coffee markets through one of three main systems of regulation: marketing boards (India, Kenya, Tanzania, Uganda), stabilisation funds (Cameroon, Côte d'Ivoire, Madagascar), and quasi-governmental coffee producer association and coffee institutes (Brazil, Colombia, Mexico). International traders willing to purchase coffee had to sign contracts with the marketing board. Alternatively, they had to bid competitively for coffee at an auction or had to buy from domestic traders in a highly regulated market. Regulation required specific quality control procedures at various stages in the domestic marketing chain. In some cases, governments even set prices and quotas allocated to private operators (see also Ponte 2001a; Fold and Ponte 2001).

These marketing systems were plagued by a number of problems. Export quotas were allocated to traders on political basis. Growers received a low share of the coffee export prices. Marketing arrangements were sometimes inefficient; therefore, coffee did not move fast enough in the chain. Also, governments used coffee boards to cream off a high share of resources created by the industry. Corruption and graft were common in many countries. On the other hand, growers received stable prices, and were rewarded for a high quality product with differentiated prices. They had easy and cheap access to inputs on credit, and were able to make informed decisions over the mid-term in relation to their investment in coffee. Success stories of economic development in the 1970s such as Kenya and Côte d'Ivoire were closely related to coffee production and trade.

As we have seen in section five, the end of the ICA regime and the increasing concentration of the coffee industry brought lower and more unstable prices. A sizeable slice of the total income generated in the coffee chain was moved out of producers' hands and was put into consuming country operators (traders, retailers, but especially roasters). At the same time, market liberalisation in producing countries resulted in the break-down of quality control measures at the domestic level and in declining levels of overall quality of coffee. Because coffees bought by private traders are all mixed together, it has become more difficult to keep high quality coffee isolated from lower quality coffee, especially in countries where

smallholders are the key producers. Increasingly, speciality coffee is grown in large scale estates that are owned by international traders or that work in strict coordination with these traders through pre-financing and marketing arrangements. Systems of input provision on credit for smallholders have collapsed, leading to lower input use without a widespread adoption of alternative farming practices such as organic farming or integrated pest management (Friis-Hansen 2000; Ponte 2001b). A more efficient marketing system has meant that producers receive a higher share of the export price. Yet, because of low international prices and declining coffee quality, the overall result is that they receive decreasing farm-gate prices.

In the last two years, farm-gate prices have reached such low levels that there is a general feeling of crisis among farmers and their governments. As farmer associations and coffee regulatory bodies depend on coffee revenues for the financing of their operations, the crisis means that they have to cut costs. In some cases, this has led to cuts in research and extension. In others, cuts have been made in promotional activities that had been central in raising the profile of producing countries and of specific 'origins' over corporate brands and blends. The case of Colombia is a particularly telling one in this respect. For over 40 years, the Colombian Federation of Coffee Growers (Fedecafé) used the fictional 'Juan Valdéz' farmer in its worldwide advertising campaign. Other producing countries saw the success of Colombian efforts as an example of how to raise the profile of their coffees and how to brand their origin. Unfortunately, this year Fedecafé has decided to 'retire' Juan Valdéz. Only a few years ago, the federation supported 4,000 jobs. Its National Coffee Fund offered financial and technical support to half a million coffee growers. Falling revenues obliged Fedecafé to implement a drastic package of cuts that includes cutting 300 jobs out of the 1,800 staff left. Cuts in advertising were deemed necessary and so Juan Valdéz went into the history books (Financial Times, 24/04/01).

Another example is Uganda, where the Uganda Coffee Development Authority (UCDA) is considering to pull out from the Association of Coffee Producing Countries (ACPC) and the Inter-African Coffee Organisation (IACO). UCDA wants to save the \$300,000 membership fees and use them for domestic projects in the face of a financial crisis (Ibid.). These examples reflect a very serious situation in producing countries. The contrast with images of wealthy consumers sipping a \$4 latte in a fancy café/bookstore or with the resources and profits posted by giant coffee roasters could not be starker. Sadly, the strategic options available to farmers and producing country governments are neither many nor powerful.

A re-birth of an International Coffee Agreement with the participation of consuming countries and the establishment of quotas and price bands does not seem possible in the short term. The inroads of neo-liberal ideology in Anglo-Saxon countries and now increasingly in continental Europe mean that there is no public or political support for a quota system nor -- with the end of the Cold War -- there is a foreign policy reason for it. Retention schemes through producer cartels, such as the current ACPC effort, have not been able to influence markets in the

presence of fundamental supply excess. A second option that has been proposed recently is the establishment of quotas on production. This could in theory be a better solution but is opposite to what governments have been promoting in the past in their own countries, that is higher -- not lower -- production. It may also be difficult to implement and monitor such a scheme in countries with minimal government supervision of coffee exports.

A third alternative is a retention scheme with the destruction of stocks. This would be a more effective option than just retention, but needs to be financed (farmers need to be paid even for the coffee that gets destroyed). Most producing countries do not have the resources for a stock destruction scheme nor are they willing to commit them. Recently, Oxfam has suggested that a one-time tax should be imposed on large coffee roasters which have been posting record profits at the same time that the price of green coffee reaches 30-year lows. This tax should be used for the destruction of 15 million bags of low-grade coffee (Financial Times, 17/05/2001). Politically, roasters are likely to resist this kind of measure. Yet, recent successes of international NGOs and the so-called 'anti-globalisation' movement in drumming up public opinion for development-related issues such as debt cancellation and price discounts for retroviral drugs suggest that it may be the right time to press large roasters (and consuming country governments) to accept such a tax in view of a potential public relation disaster. However, in the long run, structural imbalances need to be tackled, such as oversupply and price instability. Funds available through a one-time tax will not be able to address these. Funds presently available through ICO, the Common Funds for Commodities (CFC), donors and producing governments are insufficient to finance projects and programmes aimed at reducing coffee supply and promoting export diversification, destroying stocks, improving quality, promoting coffee farmer organizations, or providing hedging and e-commerce instruments to producers. Applying a small tax on transactions in the coffee futures markets (a sort of 'Tobin' tax on commodity trade) could help raise these funds and -- at the same time -- could partly alleviate price instability as well. In the next sub-sections, I explore some of the possibilities available to donors, governments, and NGOs in promoting activities aimed at increasing the creation and retention of value added in producing countries.

Adding value in producing countries

Adding value to green coffee in the producing country is not an easy option. It entails promoting quality improvement, raising the reputation of an origin, and requires good marketing skills. The key for would-be producers of high quality coffees is to know how to sell the right coffee to the right people. They need to know which quality characteristics are appreciated where, what kind of premium will be paid, and what are the motivations that are needed for consumers to take a product seriously. Selling a 'story' is particularly important. Small estates and/or cooperatives could be helped to be better at exploiting their 'stories' than they do at present. This requires access to information and marketing skills.

Openings in the speciality market should also be exploited selectively. Prospects are better in the US than in Europe, where major roasters already supply relatively high quality coffee.

Also, the 'latte revolution' seems to be less of a revolution than previously thought. Café and speciality coffee chains have been re-commoditising 'consumption experiences' and simplifying supply strategies. Large retail outlets are selling 'freshness' rather than higher inherent coffee quality to their customers. Therefore, demand for high quality coffee may not necessarily follow the growth of the speciality industry.

Domestic marketing arrangements also need to be reconsidered if quality improvement is a strategic objective of producers and producing countries. Following market liberalisation, the tendency for traders in many of these countries has been to carry out undifferentiated buying of coffee from producers to maximise the speed of capital turnaround. In Kenya, the domestic market has been only marginally liberalised, and the quality profile of Kenyan coffees has remained at high levels. In Tanzania, on the contrary, free-market domestic procurement of coffee has led to poorer primary-level quality control. These factors, combined with changing farm-level practices -- such as poorer farm and processing practices due to lower farm-gate prices, and lower input application due to an increasing inputs/output price ratio -- have resulted in quality deterioration (Ponte 2001a). No price differentials are offered to farmers for good quality coffee, which further reduces their incentive to improve quality. Cooperatives, which in the past offered differentiated prices in relation to quality, had to adapt to the new market situation and operate in a much similar way to private traders. It has also become increasingly difficult to keep high quality coffee for the speciality market separated from low quality one. In Tanzania, for example, both the quantity of coffee exported to Japan (an important buyer of 'Kilimanjaro' speciality coffee) and the premium received for it have declined. Furthermore, unscrupulous exporters sold coffee from other areas mixed with Kilimanjaro coffee. This practice has led to quality claims by Japanese importers and to a loss of reputation for Tanzanian coffee in general. Exporters who target the speciality markets are increasingly relying upon estates through vertical integration or long-term contracts. Therefore, smallholders are being marginalized (Ibid.).

One of the countervailing trends in Tanzania is that the number of farmer groups selling their coffee directly at the auction is increasing. These farmers conserve a quality incentive because the higher the quality of the coffee they produce, the higher the auction price they receive. The groups, however, need to be helped financially (in order to make a small payment at coffee delivery) and in building their organisational and marketing skills. Another countervailing trend is the increasing amount of coffee that is being processed in central pulperies rather than by individual farmers. This has led to better quality coffee and higher prices for the trader running the pulperies, but not necessarily for farmers. If the running of central pulperies can be transferred to farmer groups in the mid-term, smallholders could be able to regain their place in the speciality coffee market.

Success in selling high-premium coffees is also linked to trust between supplier and importer. Suppliers need to ensure smooth supplies and build long-term relationships. This is not always easy in some institutional environments, especially in Africa. Efforts could be made

in producing countries for institutional building in cooperatives, farmers' groups and farmer associations. Finally, the development of tight systems of certification of origin on the model of the wine industry could raise value added in producing countries. These are all areas where programmes funded by donors, producing country governments or a 'Tobin tax-like' fund could play an important role.

Facilitating producer-consumer communication and hedging

Another two areas where appropriate programmes could have a beneficial impact in producing countries is facilitating access for producer organisation, 'local' traders and exporters to e-commerce and futures markets. Internet sales of coffee increased from \$14 million in 1996 to \$30 million in 1999. These transactions, however, are made almost exclusively among actors in consuming countries. The potential of e-commerce could be extended to producing countries in order to put farmer groups, cooperatives and small exporters directly in contact with smaller roasters in consuming countries. The internet could also improve communication between small roasters based in producing countries and consumers.

Hedging purchasing and selling operations in relation to futures markets would also reduce the price risk faced by farmers and small traders. This would be best done through intermediary organisations, where the costs of communication infrastructure and broker fees can be absorbed more easily than at the level of individual farmers. These intermediaries could be cooperatives, NGOs coordinating farmer groups, or other forms of producer associations. They could sell individual 'price insurance contracts' to their members or offer a guaranteed minimum price. Producers could then achieve some level of price security, gain better access to credit and more easily plan for their farming season.

However, one should not be naïve about the possibilities offered by the internet and by market-based risk management. Organising e-commerce sales requires skills and equipment. Operations in the futures market do not eliminate price uncertainty on the origin differential. Hedging gives only temporary shield against falling market prices (under a one-year time horizon). It does not stabilise prices in the market, nor does it revert the secular fall in commodity prices. Finally, intermediary organisations need to be able to aggregate production and channel the benefits of price stabilisation to their members, have sound management, and be open to third party auditing.²⁸

Promoting conscious consumption: Fair trade, organic and shade-grown coffee

The growth of 'conscious consumption' in the North may provide an extra channel for small producers in recapturing a higher proportion of the total income generated in the coffee chain. One way is through increased promotion of fair trade in consuming countries. Fair trade in the coffee sector was pioneered by the Max Haavelar Foundation in the Netherlands in the

late 1980s. Fair trade is based on partnerships between so-called Alternative Trade Organisations (ATOs) -- such as Twin Trading, Oxfam Trading, Equal Exchange -- and producers. This partnership is defined as a *trading relationship between stakeholders that has both market-based and ethical elements and that aims to be sustainable in the long term* (Tallontire 1999, 109; original emphasis).

The relationships between ATOs and producers are mediated by Fair Trade Guarantee Organisations (FGOs) such as Max Haavelar and the Fairtrade Foundation. These organisations certify products, select, verify and monitor fair trade coffee producers, and promote fair trade products to retailers and consumers. Umbrella organizations have also been set up to coordinate FGO activity and draft general guidelines (European Fair Trade Association, Fair Trade Labelling Organisation). ATOs operate under the principle that coffee farmers are paid fairly for their product. This means that registered producer organizations and cooperatives receive a minimum floor price for the coffee they sell to ATOs. Currently, the minimum prices are \$1.10 per pound of Robusta coffee and \$1.26 per pound of Arabica. These are noticeable premia if we think that Robusta is currently trading at 25 cents per pound and Arabica at less than 62 cents per pound.²⁹ If the international price goes over the minimum price level (it has not happened very often in the 1990s), producers receive a five per cent premium above the market price for regular coffee, and 15 per cent for organic one. ATOs also provide financial and technical support to producer organizations and play an advocacy role for producers in national and international fora.

Although fair trade does not pose a major challenge to 'mainstream' trade, the long-term partnership principle on which it is based helps producers to become more active in market relations. ATOs argue that through partnerships, producers not only receive a fair price for their coffee, but are also helped to negotiate a fair price in the future (Ibid.). Much of the work of fair trade organizations is also linked to consumer education. The relative success of fair trade in Europe in the 1990s has shown that some consumers are available to pay a premium (around 10 per cent) for coffee so that farmers receive a fair payment for their effort. However, limited (albeit increasing) consumption of fair trade coffee is a major cap in the sector.³⁰ There is no reason for donors and producing country governments not to be involved in promotional activities for fair trade focused on consumers.

The same is true for alternative forms of 'conscious consumption', such as organic and shade-grown coffees. Organic coffees appeal to consumers who are concerned about health aspects of food consumption. The transition to organic farming is relatively easy in Robusta cultivation, especially in Africa where minimal chemical inputs are used. Many producers are basically already growing organic coffee but are being paid prices for non-organic coffees.

²⁸ Work in this direction is being undertaken by the International Task Force on Commodity Risk Management in Developing Countries, convened by the World Bank in 1999.

²⁹ Prices quoted here are for nearby futures contract at LIFFE and CSCE at close on 30 April 2001.

³⁰ Fair trade coffee represents about one per cent of global coffee sales.

However, they lack information about certification processes and on how to approach certification agencies. They also need technical and financial assistance in the transition. Finally, shade-grown coffee could be targeted to environmentally conscious consumers. The development of sun-resistant large-scale coffee plantations in Latin America (and increasingly in Africa) has led to the uprooting of trees. These trees used to provide shade to coffee bushes in the more 'traditional' coffee farming system. Again, smallholders cultivate coffee under shade trees already, but consumers are not paying a premium for it. This premium could be conceptualised as insurance paid by the consumer against alternative uses of the land. Therefore, it can be presented as premium for 'forest preservation' (say, of Mount Kilimanjaro). A similar marketing strategy could be devised for 'smallholder' coffee vis à vis 'estate' coffee, especially as the development of technology for genetically-modified coffee trees threatens smallholder cultivation (Financial Times, 17/05/01).³¹

9. Coffee and GCC analysis: Some preliminary insights

In this final section, I make a preliminary assessment of the insights offered by the restructuring of the global coffee chain to wider debates that are taking place in the GCC literature. Gereffi identifies four dimensions of GCCs: their input-output structure, the territory covered, their governance structures (Gereffi *et al.* 1994, 97), and the institutional framework (Gereffi 1995). The input-output structure and the geographical coverage of GCCs are mainly used to outline the configuration of specific chains and the distribution of value added. The governance structure specifies the power relationships along the chain and is where the distinction between *producer-driven* and *buyer-driven* GCC governance structures is introduced. The institutional framework specifies the local, national and international conditions that shape each activity within the chain. In Tables 3 and 4, I summarise changes and continuities within these dimensions in relation to two broad periods: the ICA regime (1962-89) and the post-ICA regime (1989-present). I have chosen these two periods for the sake of simplifying the analysis. However, even though the ICA ended in 1989, the regime shift did not occur overnight. Some of the forces that led to its transformation were already at work. Others changes took place later (the adoption of SMI, for example).

The form of governance of the global coffee chain has clearly been transformed in the transition between the two regimes. During the ICA regime, the chain was not particularly driven by any actor, nor was it possible to clearly state that producing or consuming countries controlled it. Entry barriers in farming and in domestic trade were often mediated by governments. The international coffee trade was regulated by the commodity agreement. The

³¹ This technology, if successfully adopted, would allow berries on coffee trees to mature all together, but only after being sprayed with specific chemicals. Instead of hand-picking ripe berries, harvesting could then be done by stripping. This would save labour costs and make estates more competitive than smallholders, who could not use the technology if they inter-crop coffee with other food crops.

establishment of quotas and their periodic negotiation entailed that entry barriers for countries as producer units were also politically negotiated within the ICA mechanisms. The rise of power of roasters over international traders had already started to occur. This was reflected in the leadership structures of consuming countries -- where roasters played a key role -- and meant that the trading firms' goal of maximum profits in the short term was been replaced by the search for an optimum expansion of activities on the part of roasters (see Daviron 1996). This balance shift, coupled with the inherent stabilisation forces of the ICA and regulated markets in producing countries, created a relatively stable institutional environment where rules were relatively clear, change politically negotiated, and proportions of generated income fairly distributed between consuming and producing countries. The relatively homogeneous form of trade limited the possibilities of product upgrading, but producing countries ensured product valorisation through higher prices generated by the ICA.

On the contrary, the post-ICA regime exhibits many of the characteristics of what Gereffi (1994) calls 'buyer-driven' chains. More specifically, it can be labelled a 'roaster-driven' chain. Strategic choices made by roasters in the last ten years have shaped barriers of entry not only in the roaster segment of the chain, but also in other segments upstream. The adoption of SMI has added new requirements for international traders to be part of the game. Guaranteeing a constant supply of a variety of origins and coffee types has prompted international traders to get even more involved in producing countries than they would have anyway as a result of market liberalization. Out-sourcing supply management is also an instance of externalisation of non-core functions upstream that is peculiar to many 'buyer-driven' chains.

Sturgeon (2000) shows that the functions externalised by brand-name firms to contract manufacturers in 'turn key' production networks are not necessarily 'low' profit'. Also, they do not entail a 'captive' position of suppliers. 'Turn-key' systems are common in electronic products, but also emerging in the auto parts industry, food processing and pharmaceuticals. In the primary commodity sector, they seem to be emerging in the cocoa-chocolate complex, where branded chocolate manufacturers are increasingly out-sourcing the supply of cocoa intermediate products (Fold 2000). Externalisation of supply management by coffee roasters, however, does not seem to follow the 'turn-key' model -- partly because there are no manufacturing or processing functions that are being out-sourced. Increased instability in coffee prices and the resulting necessity to hedge stock-holding entails that profit margins are trimmed in the supply function. Indeed, speculative holding does not seem a major activity of international traders who are involved in supplying large roasters. As long as oversupply persists, these traders are likely to remain in a 'captive' supply function.

New requirements set by roasters on minimum quantities needed from any particular origin to be included in a major blend may also be interpreted as setting entry barriers to producing countries. These barriers used to be set by governments on the basis of political negotiation under the ICA regime. Now, private firms set them on the basis of market requirements.

Roasters are also devising new technological solutions to be less dependent on any type or origin of coffee. It is not clear yet how roasters have combined the minimum supply quantity strategy with more flexibility in product substitution, and which one of the two has relatively more weight in their global sourcing strategy. In any case, they both indicate a potential increase in the level of 'drivenness' of the chain by roasters. The persistent ability of roasters to keep retailer margins at low levels suggests that they are still the driving force in the chain even downstream. Countervailing tendencies are arising in the speciality market. However, these may not be as threatening to mainstream roasters as it seems because they always have the possibility of buying out significant speciality players. Also, as speciality coffee actors grow, they tend to streamline operations and homogenise products, therefore adopting some of the same supply strategies used by giant conglomerates.

The institutional framework within which the coffee chain operates has changed dramatically as well. Market relations have substituted political negotiation over quotas. Producing countries have disappeared as actors in these interactions, with the exception of not-so-successful retention attempts under the ACPC umbrella. The ICO has become a relatively empty institutional shell. Domestic regulation of coffee markets plays an increasingly weaker role. Relatively stable producer-negotiated and product-based quality conventions are increasingly giving way to conventions that are generally buyer-established and more prone to sudden changes. As concerns fair trade, organic, and shade-grown coffees, these conventions are based on (buyer-defined) process monitoring -- as well as product specification. Product upgrading possibilities have increased through the fragmentation of consumption patterns, marketing of 'conscious' coffee and direct internet sales. However, openings in speciality markets so far have been more suitable to estates than smallholders.

All of this indicates that the institutional framework is moving away from a formal and relatively stable system where producers had an established 'voice' towards one that is more informal, inherently unstable and buyer-dominated. In the process, a substantial proportion of total income generated in the coffee chain has been transferred from farmers to consuming country operators. Furthermore, if roasters had provided stability to the ICA regime in their search for an optimum expansion of activities, they are now one of the de-stabilising forces in the coffee market. Increased corporate financialisation of giant roasting firms entails that their more pressing goal is not expansion of activity *per se* anymore. Their goal is rather the maximisation of profits in the short term to increase the value of shares, even if it means disposing of non-core and under-performing functions (such as supply management). In this system, inherent instability is not a major problem for equity holders of roasting firms as investment fund managers can diversify risks for them.

International traders, themselves increasingly falling under the same corporate model and its pressures, can either upgrade their functional roles and invest in new logistics systems, restructure their organization, and become more involved in producing countries, or disappear. Those trading firms that survive have the option of hedging increased risks

through futures market operations. Local actors in producing countries do not have the same ease of access to hedging instruments. Therefore, they have either allied themselves with international traders or have disappeared. In most cases, they are losing control of processing, domestic trade and export functions. Further consolidation seems inevitable throughout the industry. Farmers, however, do not have easy 'consolidation' options. Their cooperatives find it difficult to compete with local subsidiaries of large trading firms. As governments retreat from the regulation of domestic coffee markets, farmer organizations lose a political forum of negotiation. The weakness and inherent instability of the institutional framework falls straight on the shoulders of farmers.

Table 3: Characteristics of coffee chain restructuring (input-output structure and geographies of production and consumption)

	<i>ICA regime (1962-1989)</i>	<i>Post-ICA regime (1989-present)</i>
<i>Geography of production</i>	at first concentrated in few large producing countries (Brazil, Colombia); later, increasingly dispersed with the emergence of new producers	fragmentation continues
<i>Entry barriers to production</i>	low, due to government intervention (input and credit supply, extension, coffee cultivation campaigns, price stabilisation)	increased, due to government withdrawal from the provision of services to farmers (end of input supply schemes, breakdown of research and extension networks, end of price stabilisation mechanisms)
<i>Characteristics of internationally-traded product</i>	relatively homogeneous, but distinguished by physical and intrinsic qualities (the latter especially for Mild Arabica)	bifurcated trend: increased homogenisation of lower quality coffees, especially Robusta (bulk export in containers without bags); at the same time, increased trade of small quantities of specific high-end quality beans (Mild Arabica)
<i>Entry barriers to trade</i>	<i>domestic trade and export</i> : high barriers due to monopoly of marketing or politically-set quotas <i>international trade</i> : increasing due to consolidation	<i>domestic trade and export</i> : first, decreased entry barriers due to liberalisation; later, increased barriers following the strengthening of international trader operations in producing countries <i>international trade</i> : increasing in mainstream market due to further consolidation and requirements set by roasters through SMI; decreasing in speciality market due to fragmentation and the growing importance of internet sales
<i>Distribution of total income generated along the chain</i>	relatively stable, with farmers getting around 20 per cent of the total, and consuming country operators around 50 per cent	shifted dramatically to the advantage of consuming country operators
<i>Geography of consumption</i>	concentrated in North America, Western Europe and Japan	emergence of new markets (Eastern Europe, China, East Asia)
<i>Typology of consumption</i>	segmented by group of countries (different coffee types and blends catering for the USA/UK markets, Southern Europe, Scandinavia, Central Europe, Japan), but relatively homogeneous consumption within these geographical areas	increased fragmentation: multiplication of types of product and blurring of distinctive lines of preference between different groups of countries; from blend to brand; increased importance of 'single origin' coffees

Table 4: Characteristics of coffee chain restructuring (governance structure and institutional framework)

	<i>ICA regime (1962-1989)</i>	<i>Post-ICA regime (1989-present)</i>
<i>Governance structure of the chain</i>	low level of 'driveness'; increasing concentration in roasting and trading segments raises barriers of entry, but roasters are neither in the position to dictate the terms of the trade to traders, nor to set inclusion/exclusion thresholds; control over the chain by any actor is limited	'buyer-driven' (specifically, roaster-driven); further consolidation in roasting; oversupply; adoption of SMI by roasters forces traders to integrate upstream; integration made easier by market liberalisation in producing countries;
<i>Vertical integration</i>	not common; sometimes occurring in export/international trade links; more rarely into domestic trade and processing	increasing; international traders integrate into export, processing, domestic trade and sometimes even estate production; vertical integration much more limited in the roaster-international trader link.
<i>Producer-consumer country relations</i>	in relative equilibrium; mediated through the ICAs	absence of formalised relations; consuming country domination
<i>Institutional structures (international)</i>	strong: international trade regulated by ICAs	weak: end of ICA; producing country cartels fail to set up effective quota or retention schemes; futures market increasingly de-linked from market fundamentals
<i>Institutional structures (domestic)</i>	strong : markets monopolised by marketing boards, or regulated by stabilisation funds and quasi-governmental producer associations	weak: government and quasi-government institutions retreat into oversight functions or are eliminated altogether; trade associations fill part of the formal institutional vacuum
<i>Quality conventions</i>	<i>international-level</i> : product-based; set in negotiation with producing-country sellers (and/or marketing boards) and maintained via instrument-based testing and inspection, cup testing, and certification of the product; in general, quality assessed by the buyer ex-post; <i>domestic-level</i> : set by a regulatory agency; includes specific quality control procedures along the chain	<i>international-level</i> : increasing importance of conventions defined by buyers; process monitoring (in addition to product testing) becomes important for fair trade, organic, shade-grown coffees; quality increasingly assessed by buyers ex-ante; <i>domestic-level</i> : increasingly set by buyers; formal rules of quality control remain but are increasingly disregarded
<i>Upgrading possibilities</i>	limited; undifferentiated trade; however, producing countries achieve product valorisation through higher international prices provided by the ICA	potentially increasing through marketing of 'conscious' coffee and direct internet sales; openings in speciality markets more suitable to estates than smallholders

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