Coffee

The Rules of Neo-Colonialism

a study of international coffee trade and the International Coffee Agreement

by the North London Haslemere Group

PRICE TWELVE PENCE

a Haslemere Group and Third World First Publication

This pamphlet examines how the west has arranged the world's coffee production and pricing system to suit its own needs with scant regard for the well being of the coffee growers themselves.

We publish this study now because of its relevance to the forthcoming meeting of UNCTAD in Santiago. Although UNCTAD is the official world body for advancing the cause of the Third World in trade relations, it has, incredibly, decided to omit coffee from its published agenda. Since UNCTAD meets only once every four years, we find this an extraordinary omission: it is yet another indication of the tremendous pressure the rich countries can bring to bear on the poor.

'I sit on a man's back choking him and making him carry me and yet assure myself and others that I am sorry for him and wish to lighten his load by all possible means – except by getting off his back.'

LEO TOLSTOY

'Never before has man had such a capacity to control his own environment, to end thirst and hunger, to conquer poverty and disease, to banish illiteracy and massive human misery. We have the power to make this the best generation of mankind or to make it the last.'

JOHN F. KENNEDY

'The Third World has no intention of mounting a great hunger crusade against all Europe. What it expects from those who have kept it in slavery for centuries is that they should help it to rehabilitate man, to make man triumphant everywhere, once and for all.'

FRANTZ FANON

Mariarosa Dalla Costa

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Published by the
HASLEMERE DECLARATION GROUP
c/o 515 Liverpool Road, London N7 8NS
and
THIRD WORLD FIRST
Britwell Salome, Watlington, Oxford OX9 5LH

Introduction

Coffee is the single largest commodity traded internationally apart from oil. In 1952, at 80c per pound on the world market, coffee was the dream crop that would boost the developing countries into prosperity. In 1972, at 45c per pound, coffee represents economic tragedy, with vast rotting stockpiles, fluctuating prices and little hope for the future.

For the producing countries such as Brazil, Colombia, El Salvador and Guatemala, who are reliant on coffee as their main export earner, the situation has degenerated into chronic unemployment, vicious political repression and poverty for the mass of the people.

In 1962, the International Coffee Agreement was signed by the producing and consuming countries and the International Coffee Organisation was set up ostensibly to stabilise the market situation and to resolve the problems of over-production and price instability. The ICA is the one commodity agreement which is held up to show how much such agreements can benefit under-developed countries. Now, 10 years later, the ICO has shown itself to be an expensive white elephant and the ICA an unworkable and ill-advised contract designed to curb dissent and to perpetuate the inequities between the developed and developing nations.

Production and trade

In Latin America, the principal coffee grown is Arabica which is marketed as 'Colombian Mild', 'washed Arabica' (the washing process produces a much milder coffee) and 'unwashed Arabica'. In Africa the main type of coffee grown is Robusta which is, as implied by its name, a hardier plant, but the coffee is of lower quality. Until recently Robusta sales were small, but with its increased use in instant coffee, sales have risen from 16% of the world production in 1951 to 25.2% in 1970. The fact that the coffee plant is difficult to grow (particularly the Arabica) and is susceptible to leaf rust disease and frost, is one of the reasons behind the fluctuating supply which can disturb the price in the market. As the plant does not produce until 4 to 5 years after planting, supply cannot rapidly be adjusted to demand in case of crop failure.

Some compensation for this is afforded by the large quantities – roughly equal to one year's production – of coffee stockpiled, but the quality of stockpiled coffee deteriorates rapidly, and is, after 3 years, unusable.

Although much coffee is grown by farmers who own, on average, 50-75 acres, production is still dominated by vast plantations owned, in many cases, by absentee or foreign landlords. In Colombia for example, 7 plantations produce 70% of the coffee exported. In fact more than 70% of Colombia's export dollar earnings (65% of which come from coffee) are concentrated in the hands of 90 individuals.

The way in which coffee makes its way from individual farms and plantations to the ports ready for export varies from country to country. In such countries as Brazil, Ethiopia and Colombia where coffee production is centralised under a governmental organisation, coffee is often bought, washed or unwashed, directly from the farmer, and pulped, washed, hulled, dried and bagged by the central agency. In other countries individual coffee exporters buy coffee straight from the farmer or from pulperies.

At the main coffee ports the International Coffee Organisation supervises all proceedings to make sure that exports do not exceed the quota allocated for that country. Coffee produced in excess of the quota is either stockpiled in Government warehouses, used for local consumption, or traded to countries not covered by the quota system (according to the ICO this only accounts for 4 million bags a year as compared with some 50 million bags exported under quota).

Although some coffee is sold to buyers in the country of origin, most coffee is shipped to Europe and America to be sold at either a terminal market or a 'futures' market where contracts for delivery are drawn up many months ahead. The coffee is bought by individual roasters or large coffee manufacturers such as Nestlés and Maxwell House who further process the coffee into the familiar instant type. Most of the large companies in Europe and in the States hold their own stockpiles of coffee to guard against price fluctuations.

A coffee farmer selling unwashed coffee will make about 4p a pound. At the terminal markets coffee fetches today between 17p and 23p per pound. Consumers pay about £1 for a pound of instant coffee.

Conditions of labour

According to Hailu Teferra, an executive of the National Coffee Board of Ethiopia, the coffee industry employs about 20.5 million workers and supports the livelihood of some 200 million people in the producing countries.

For the producing countries, coffee earns about \$2.4-\$2.6 billion a year, so that even if export earnings on coffee were fairly distributed between those who work in coffee, each worker would earn only £40 a year approximately on which to support himself and his family.

The bulk of coffee is grown on small holdings farmed at little above subsistence level although in Brazil and Angola much coffee is produced on plantations. In Angolan plantations, workers are patrolled by armed foremen. On all plantations wages are exceedingly low and living conditions abysmal.

Although the unfair distribution of land weighs on the social conscience of most 'aware' people in the coffee producing countries, little more than lip service is paid to agrarian reform by most governments.

High rates of unemployment in many of the producing countries are endemic. Many agricultural workers find work only on a casual basis and often only at harvesting times. The labour requirement for coffee is normally only a quarter of the labour that is required at harvest time.

The producing countries

All the 42 countries represented at the International Coffee Organisation that produce coffee are classified according to western definitions as being either 'underdeveloped' or 'developing' nations. This means that they are dependent on the export of primary commodities, such as coffee, for the main source of their income – rather than on the export of manufactured items. Coffee exports are the source of from 25% to 81% of all foreign exchange for 14 of the producing countries. This dependence has led the producing countries into great economic instability as the price paid for primary products, determined in New York or London, has been falling steadily for many years, whereas the price of the manufactured items they need in order to begin to industrialise, also determined in the developed countries, has been increasing annually at a dramatic rate.

In Latin America, the social implications of coffee's falling revenue and sales are of enormous importance as the production of coffee for many farmers is a traditional way of life. If the price of coffee falls too far it would throw millions out of employment and the resulting social unrest could easily become the prelude to massive revolutionary activity. Already in Brazil thousands of farmers continue to grow coffee destined for destruction as the government finds it politically more viable for these people to be uselessly employed than to be unemployed. The dissatisfaction of the farmers and workers with their poverty is politically manageable only while they are employed and can be convinced of the future possibility of another boom in the price of coffee.

Senator Enrique Escovar of Colombia summed up the position in an interview with the American journalist John Gerassi: 'The Alliance ends up as just words unless coffee prices are returned to a fair level. We have lost, in the first year of the Alliance, almost twice as much as we gained from the Alliance. Our raw materials control our whole economy. The World Coffee Agreement is a subterfuge. There is no reason why North Americans have to come and tell us that the American housewife does not want the coffee prices to go up and on the other hand make us appear like beggars. When coffee was sold at one dollar a kilo we had 53,000,000 dollars a month for our essential imports. Now, we have more coffee to sell, but the price is 41 cents and we only have 33,000,000 dollars a month for more essential imports at higher prices. Pay us good prices for our coffee or – God help us all – the masses will become one great Marxist revolutionary army that will sweep us all into the sea'.

Brazil, overwhelmingly the largest producer in the world, effectively dominates all other producers in Latin America, although Colombia, as the producer of the highest quality coffee, also plays a decisive part in the politics of coffee. Although most Latin American countries carry a surplus of coffee, Colombia and Brazil, because of their centralised control of production, are the only countries which have accumulated a permanent carry-over. The presence of these stocks gives Brazil and Colombia their bargaining power within the ICO.

Other Latin American producers of Arabica coffee constantly face the difficulties posed by Brazil's predominance as the producer of this type. They have been badly hit by Brazil's policy of special deals (see p 8) and by the falling off of consumption in the USA – their main market.

The position of African producers differs from that of the Latin American producers in that large scale coffee production is a relatively recent development. The majority of coffee now produced in Africa is the hardier Robusta type, whose disease-resistance and suitability for use in the manufacture of instant coffee has caused many conflicts with Arabica producers (mainly Brazil). Although the organisation of coffee production is centralised under governmental or quasi governmental control in all African states except for Angola, and although there is a growing demand for instant coffee, Robusta coffee is over-produced throughout Africa to such an extent that the burden of world surpluses is moving from Brazil and Colombia to Africa. Understandably, African producers want a greater share of the overall quota, but, as this could happen only at the expense of Arabica producers, Brazil's opposition will make this difficult.

The Inter-African Coffee Organisation, a consultative body covering both Arabica and Robusta producing nations, recently expressed dissatisfaction with the International Coffee Organisation and has demanded a renegotiation of the Agreement. At present Brazil and the USA are the most powerful members of the ICO and can effectively block any proposals favouring African Robusta producers. Had Robusta production been more substantial before the signing of the Agreement, the status of the producers within the ICO today would obviously be far greater.

The former French colonies in Africa are virtually guaranteed a market for part of their production in the European Economic Community, as they have an import duty advantage of 7% over other producers. Britain's main suppliers, Kenya, Tanzania and Uganda, gained the same advantage in January 1971.

It is important to note the rôle of Portugal in coffee production as Angola, a Portuguese colony, is the second largest African producer (and the fourth largest producer in the world after Brazil, Colombia and the Ivory Coast). Angola's production of approximately 3,300,000 bags a year is vital to the Portuguese economy. Ironically, the Portuguese head of the Angolan delegation to the ICO and the Coffee Institute in New York, Artur Medina, often acts as an unofficial spokesman for most African producing countries.

Opposition to Portugal's fascist policies both in Portugal and in her African colonies of Guinea Bissau, Angola and Mozambique has led the UN into passing a resolution to the effect that Portugal should not be allowed to represent these colonies in international organisations – they should represent themselves as independent states. Although this resolution has led to the expulsion of Portugal from many international organisations, UNESCO being the most recent, she still remains a powerful member of the ICO.

Angola

The Portuguese colony of Angola is one of the most unfortunate states in Africa. It has the dubious honour of having one of the highest infant mortality and illiteracy rates in Africa. Wages are pitiful and the contract and forced labour methods are still widespread, particularly on the coffee plantations. The Portuguese government maintains that Angola is an 'overseas province' of Portugal, but in African eyes, the descendents of the ancient slavers are still the bosses, the oppressors and the big landowners.

Production is dominated by 690 plantations covering 226,000 hectares. The largest in the world – covering 22,000 hectares and employing 10,000 workers – is owned by the Companhia Angola de Agriculture (the Portuguese government). Of the remaining 299,000 hectares under coffee cultivation, 1,497 small plantations occupy 159,000 hectares and 58,000 small farms occupy 140,000 hectares.

An estimated 190,000 people are engaged in coffee cultivation, of which 58,000 African farmers cultivate an average of 2.4 hectares each and about 125,000 Africans work on European owned plantations. The largest coffee-growing region is in the north, around Carmona where there are frequent clashes between the Portuguese army and the guerrillas. Plantations maintain their own private armies of security guards, and guard dogs, search lights and barbed wire are common, in fact everything that the Portuguese consider they need to ensure maximum productivity.

Brazil

An analysis of coffee production in Brazil is essential for a proper understanding of the whole coffee situation as Brazil's political dominance and her policies under the ICA are in effect manifestations of her own internal problems with coffee, and the problems in her relationship with the USA.

Brazilian coffee represents approximately 40% of total world supplies – about 24 million bags. Nearly all of this coffee is grown in the two states of São Paulo and Paraná; among the richest states in Brazil. 10% of the total cultivated area in Brazil is under coffee and 94% of this land is held by 6% of the landowners. Coffee is the basis of the Brazilian economy, accounting for 45% of her total export revenue.

Most of the coffee in Brazil is grown on vast plantations or 'fazendas' which cultivate on average 30 – 50 thousand trees although some may grow as many as a million. Many of these plantations are owned by absentee landlords, or businessmen from Rio or São Paulo. The head of Brazilian TV – José Bonifaco – owns a 'weekend farm' of 500,000 trees capable of producing 480,000 kilos of coffee worth £60,000 annually. These fazendas were originally farmed by African slaves and the conditions today for the peasant workers are not much better than those of the slaves. Wages are meagre and sometimes non-existent, the worker selling his labour to pay for the rent on his hut and patch of land on which he is allowed to grow a few vegetables.

Although there has been a cut back in subsidies recently, the afzendas are still to some extent financed by the Brazilian government, and to a certain extent backed by American investment. In general, communications in Brazil are poor, but many fazendas possess their own private railway lines.

Because of the dominance of coffee in the Brazilian economy, the vast amounts of superfluous coffee grown since 1956/57 have had serious effects on Brazil's economic policies. When this excessive production first became evident Brazil, unwilling to lose revenue through falling prices, started to stockpile and burn large amounts of coffee. As farmers are paid only half the normal price for coffee to be stockpiled, any retention policy severely affects their already low income. Today Brazil is still mainly concerned with trying to make coffee production profitable in a situation of excessive supplies. Brazil's own internal policies and manipulation of the ICA sessions reflects this intention.

To Brazil all other coffee producers, especially the Robusta producers, are rivals, and her policies in recent years show to what extent she is prepared to further her own interests at the expense of other producing nations. This somewhat makes a mockery of the idea of mutual co-operation between producing Members of the ICA.

Although Brazil retains vast amounts of stockpiled coffee, annual production is decreasing and occasionally Brazil has had difficulty in meeting her quota requirements and has had to fall back onto her stockpiled coffee (of less value and far poorer quality). To some extent this situation is the result of her own policies of uprooting trees, and of cutting subsidies and financial incentives to coffee farmers. (Although these policies initially helped to cut down excessive production in the 1960's, they have caused great economic problems of unemployment as old coffee land is often unuseable except for pasture, and beef grazing requires minimal labour as compared with coffee). Leaf rust disease, severe droughts, frost and exhaustion of the former rich terra roxa or 'coffee soil' of the São Paulo and Paraná areas have also cut back the supply of coffee to the extent that the Instituto Brasileiro do Café now plans to spend approximately $285 million in a programme for 1972 to plant 120 million coffee trees, raise 150 million seedlings and to purchase fertilisers and pesticides for 1,500 million coffee trees. For Brazil intends to retain her position of predominance as a coffee producer and to do this will replant even though she retains more than 30 million coffee trees. In February 1972 the Brazilian Government announced that it would allocate $740 million for the improvement of coffee production.

As Brazil is mainly concerned with short-term policies, i.e. concerned with the coming harvest and immediate quota requirements, the apparently contradictory policies of coffee destruction and replanting of trees can each be feasible as the situation changes from year to year. Brazil is anxious to contain leaf rust disease, responsible for severe damage to recent crops, and to plant new healthy trees sufficient to maintain her output.

Brazil is, perhaps, the only coffee-producing nation in Latin America where its own coffee can be bought. Throughout the other countries, even Colombia, most of the coffee for sale is Nescafé – imported from the USA.

Colombia

Fifteen per cent of the world's coffee and 32% of the high quality mild Arabica coffee is produced in Colombia. Over two million people in Colombia derive whole or part of their income from coffee and over 65% of the nation's foreign exchange earnings comes from this commodity.

Coffee production in Colombia is centralised under Federacafé, ostensibly a Federation of Coffee Growers, but in practice a government agency. Federacafé is responsible for quality control on coffee and for diversification plans. It buys coffee off farmers at a guaranteed price, although the farmer normally would receive more if he sold to a private exporter which he is free to do. Producers have to pay a 25½% tax on all coffee produced and exported to enable Federacafé to buy coffee for storage for which it maintains facilities capable of holding 303,000 metric tons.

Despite the advantages of having coffee production centralised, many Colombian coffee farmers live virtually at a subsistence level and serious malnutrition is widespread throughout Colombia.

Colombia, with over 5 million bags stockpiled, in recent years has had to adapt to a decreasing demand for her quality coffee as to the big users an easily attainable relative mediocrity in coffee quality is more desirable than a distinctive quality that has to be sought out.

Ivory Coast

The Ivory Coast is the largest Robusta producer in the world, accounting for 23.5% of world production. It is the third largest coffee producer in the world with 6.6% of the world's exportable production and is the largest producer in Africa. Half the population of the Ivory Coast receives all or part of its income from coffee – involving an estimated 2,325,000 people. 95% of all coffee farms are small-holdings of 2.5 to 5 acres. Coffee's importance to the economy can be further exemplified by the fact that it accounts for more than 40% of the value of all exports.

Coffee production is centralised under the control of the Government, which, as Federacafé does in Colombia, guarantees a minimum price for coffee to all farmers and also controls the transport, conditioning, quality and export of coffee. Since 1965, in an effort to solve problems of overproduction, the Ivory Coast has attempted to stop any expansion of existing farms and has forbidden the setting-up of new farms. Although there is some processing of coffee in the Ivory Coast, unfortunately the government has allowed this to be controlled by foreign companies. Nescafé has a soluble coffee plant built in 1962 capable of processing 5,000 metric tons of coffee. Foreign companies such as SIFCA-OR Brun control all roasting and processing of coffee (about 10,000 metric tons is roasted annually). However, the government has tried to encourage local consumption and can claim credit for a successful campaign.

45% of the Ivory Coast's coffee is exported to France and a further 30% to the USA.

Brazil versus USA

Brazil's attempts to make the most of the present coffee situation, frequently at the expense of other producers, merits closer attention. Her one attempt to ease the position by establishing Brazilian-owned factories for processing instant coffee was severely dealt with by the USA. Brazil had managed to capture 14% of the US market in instant coffee when America threatened it would not renew the International Coffee Agreement and talked about cutting aid to Brazil. The US soluble coffee manufacturers claimed 'unfair competition' because the Brazilian firms could buy coffee beans more cheaply than they could.

But the Brazilian firms partly used broken coffee beans, unsaleable in the world market, and even without this 'unfair' advantage, they would inevitably be able to undercut US firms. Instant coffee weighs only one-third as much as beans, lowering shipping costs, and industrial wages in Brazil are lower than corresponding wages in the USA.

In March 1968 Brazil was forced to give way. The Brazilian Government undertook the imposition of an export tax on Brazilian powdered coffee which has, in effect, made the broken beans sold by the Government to its own manufacturers of instant coffee as expensive as whole beans are to the American processors. Brazil had also to agree to sell quotas of good coffee (560,000 bags a year) to the USA at the same prices paid by her own manufacturers. Production of soluble coffee in Brazil is now limited by the USA to 15% of total production.

But this is a familiar occurence – whenever any developing country tries to develop any kind of industry prejudicial to the interests of the developed countries, manufacturers in the industrialised countries will immediately claim 'unfair' advantage, and slam on a tarriff (Ref: India's textile industry).

International Coffee Agreement

The International Coffee Agreement was signed by most exporting and importing countries in 1962 after a period of massive over-production and a serious slump in the price of coffee. Between 1959 and 1961 prices dropped by 53.5% causing serious economic problems and threatening large scale social unrest in the producing countries. For this to coincide with the recent successes of revolutionary activity in Latin America (the Cuban revolution in 1959) was an alarming problem, not only for the governments of the producing countries, but also for the USA and for other importing countries who feared, amongst many things, a complete collapse of coffee production.

In October 1958 the fifteen producing countries of Latin America had agreed to try and stabilise the situation by stockpiling their crops and only allowing a certain amount onto the market. In August 1961 the USA launched its abortive Alliance for Progress, and the seriousness of the coffee situation in economic and political terms was internationally acknowledged in 1962 by the signing of the International Coffee

Agreement by 41 exporting countries (Portugal signing on behalf of its colonies) and 21 importing countries.

Under the Agreement the quota for the total amount of coffee to be exported in one year is determined at the beginning of each new coffee year in October. The individual exporting countries are allocated a specified amount of this total for their own quota which is further broken down into quarterly quotas.

Floor and ceiling prices are determined for all four types of coffee. For the coffee year 1971/72 these prices are:—

Type	*Floor*	*Ceiling*
Colombian Milds	46.00c	50.00c
Washed Arabica (other milds)	44.00c	48.00c
Unwashed Arabicas	42.00c	46.00c
Robustas	38.50c	42.00c

It should be noted that these are only *indicator* prices, the actual prices are still determined by the 'free market'.

The International Coffee Organisation set up in London to administer the terms of the Agreement, attempts to regulate the supply and price of coffee, by using a system whereby quotas are adjusted if the price for any type of coffee falls below or rises above the stated limits.

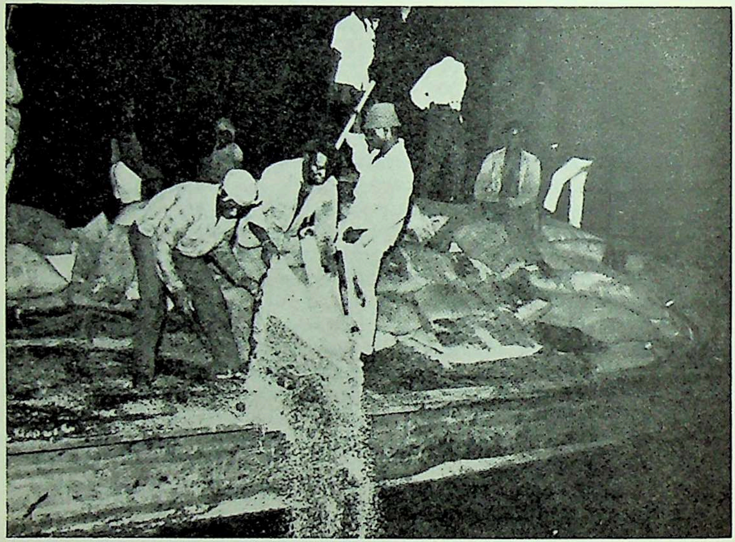
For example in October 1971, the price for washed Arabica dropped below its floor price of 44c a lb to 42.88c. This was caused by the dock strike on the East Coast of the USA – coffee which normally would have been sold to the USA was offered to other buyers who, already in sufficient supply from their usual sources, refused to pay more than 42.88c. Eventually, after 28 days of low prices, the ICO decided to cut back the quota for the producers of 'other milds', including El Salvador, Guatemala and Mexico, by $2\frac{1}{2}$% – a total cut-back of 960,000 bags for that year, thus reducing supply in order to raise the prices.

The voting power of the members is determined by the amount of coffee they are permitted to export under quota, or the amount they import. Thus Brazil as the largest exporter and the USA as the largest importer (accounting for 43% of total world imports) effectively dominate the ICO. The USA further strengthens its control of the ICO by refusing to sign the Agreement for more than 1 or 2 years at a time, while all other Members sign for a period of 5 years. In fact most Members are impatient with the way the US Congress treats the Agreement as a 'political football', but Congress and the American delegates to the ICO are under strong pressure not to agree to any measures that would cut back supplies, as the price would then rise. This tactic has proved successful and statistics recently provided for the US Congress showed quite clearly that, of all breakfast foods in the USA, coffee had enjoyed the lowest rise in price to the consumer.

Coffee Destruction

As one of the main problems for the ICA is posed by the presence of the vast stocks of coffee, usually equal to over one year's production, the Organisation has determined to reduce the world's stocks to 50% of the annual demand. As a means to this end, many producing countries have been forced into burning and dumping into the sea, tons of their stockpiled coffee.

In 1968 the Ivory Coast was forced to destroy over 100,000 tons of coffee, over a third of one year's production. As coffee represents over 50% of the Ivory Coast's export earnings, the destruction of stockpiles plays havoc with their economic planning.



Despite this destruction of coffee, more and more fresh coffee is added to stocks every year. The alternative measures of destroying trees and changing crops have not become popular.

ICA's Coffee Promotion Fund

The World Coffee Promotion Committee of the ICO has spent over US $27 million in promoting coffee in the major consuming countries since 1965/66, $16 million of which was spent in the USA and Canada alone despite the fact that there is virtually no room for the expansion of coffee consumption in North America. Indeed, consumption in the USA has been steadily falling since the mid-60s. This campaign is financed by the exporting members of the ICA through a 15c levy on each bag of coffee exported.

Some promotion campaigns have also been held in the producing countries – the Ivory Coast claims an increase in consumption of 600% in 5 years, thus indicating the areas in which such campaigns have been most effective.

The ICA's aim is, obviously, to attempt to bring demand somewhere near the level of supply but as the total production is something near twice the consumption level, promotion campaigns in the already consuming countries are scarcely going to alter the situation to any great extent.

An increase in coffee consumption, if successful, may ease the problems of over-production, but it cannot really be considered as a long-term solution to the situation, as an increase in consumption or price in the past has led only to more planting and eventually to over-production.

ICA – Diversification Fund

The Diversification Fund of the ICO is financed by compulsory contributions of $30 million per annum by the 29 producing countries whose annual export quota exceeds 100,000 bags. The Fund is designed to help the producing countries to phase gradually out of excess coffee production and into other crops. While there can be no doubt that diversification is necessary, particularly into food crops for local consumption, it should be obvious that diversification into unprocessed export crops such as sugar, rubber and cocoa etc, advocated by the ICO, is sure to lead to further problems. As long as these commodities are sold on the 'free market', they are certain to provide a steadily declining revenue for the producers, and until such time as the producers can organise commodity agreements that will control prices to their benefit, diversification programmes into this sector will remain of dubious value. Any diversification programme that is not implemented alongside radical land redistribution programmes will continue to benefit only a privileged minority against the interests of the mass of peasant workers.

It is clear that the ICO avoids diversification into industry because of the presence of the industrialised countries in the organisation who are intent on protecting their domestic and export markets. While it may be necessary for the developing countries, at the moment, to abandon hope for large scale industrial projects, the development of intermediate technologies at the community level could be of enormous benefit economically, socially and ecologically. Although the establishment of coffee processing plants will not absorb much of the displaced labour, a total reorganisation of the marketing structure, if well planned, could provide many new jobs. At present the producing countries grow the coffee and deliver to the ports. The consuming countries then take care of the shipping, insurance, processing, distribution and sales, all providing employment and profits for the consuming countries. It is not unusual to find coffee that, when finally processed by a company such as Nestlés, in a developed country, is re-shipped, insured, distributed and sold in the producing country with most of the profits returning to the various companies in the industrialised countries.

Not only is this situation unprofitable to the producer and consumers alike, it is a senseless waste. It is not until the ICO is restructured to exclude the importing countries that the producing countries will be able to diversify in any real sense of the meaning.

In São Paulo, the second main coffee producing area of Brazil, where diversification has been attempted, the eradication of coffee plants has led to massive unemployment, especially amongst migrant workers as the land is often subsequently used for cattle grazing which requires very little labour. These migrant workers, in addition to losing an important source of employment, are invariably too poor to buy the meat these ranches now produce.

If diversification is to benefit the farm and plantation workers, it must mean radical changes in the structure of land ownership and in the choice of crops grown.

ICA – Problems

The Organisation's intention to stabilise production and consumption has not been achieved, and the Agreement is constantly posed with major problems caused by the disparity between supply and demand.

Production of coffee is periodically threatened by new outbreaks of leaf rust in Brazil, by soil exhaustion and by storms that extensively damaged Brazilian crops in September 1971. However, the vast amount of stockpiled coffee that becomes useless after 3 or 4 years if it is not sold, causes more severe problems.

Brazil has in the past, in an effort to unload some of her stockpiled coffee, resorted to sales offensives in offering her coffee at substantial discounts to American and European roasters, thus jeopardising the sales of other Arabica producers and also, by bringing the price of unwashed Arabica down to a level competitive with Robusta, most of the African producers. Although the details of each deal differ, the basic feature is that the buyer is offered rebates on the market price (often taking the form of credit notes for use in future sales) in return for increased purchases of Brazilian coffee over an agreed period – usually three years.

In February 1970 the importing Members of the ICO pressed for an increase in supplies to deflate the price boom caused by a disastrous frost in Brazil. The producing countries, who were beginning to enjoy a higher price than usual, united against them. A deadlock ensued and nothing was resolved – prices stayed high, but have fallen again since that time.

In February 1971 Brazil and the USA were at complete loggerheads. Brazil wanted a reduction in the overall quota by 3 million bags (132 lb per bag) to raise the price, as it seemed unlikely that she would be able to meet her own quota except by unloading old coffee on to the market. The USA was adamantly opposed.

Soon afterwards, at the Annual Meeting in September 1971, the USA and Brazil united against the Robusta producers. The price for unwashed Arabica had fallen to a level where it was in direct competition with Robusta and was taking over much of the Robusta market. A compromise was accepted in which the top price level for Robusta overlaps by 50c the minimum price level for unwashed Arabica – thus ensuring a price war between the two types, a situation that will no doubt benefit the consuming countries.

ICA – Criticisms

Despite the intolerable waste of human resources spent in producing coffee often destined only for destruction, it is unlikely that any serious steps will be taken to solve the present situation of excessive production because the price level is being artificially maintained by the ICA at a level which, although not making coffee production profitable, at least yields some balance of income over expenditure.

The ICO was set up in order, by their system, to maintain the price of coffee at an artificial level, as the threatened collapse in price would have caused political and social upheavals and probably socialist revolution throughout Central and South America.

In his book *The World's Coffee* published in 1963, J. F. Rowe, lecturer in economics at Cambridge, was forced to the conclusion that 'the fundamental aim of the (International Coffee) Agreement is deliberately to postpone any solution, and thereby the inconvenient and even painful adjustments which any solution must involve at least in most producing countries'.

For the ICO has done precious little besides postponing any solution. Its one positive programme – of diversification – is implemented on a scale that, in the light of the situation, is absurdly inadequate.

Mr D. M. Bryceson, Minister of Agriculture in Tanzania, recently criticised the ICO for producing bargains for the American housewife but doing little to benefit developing countries, and in December 1971 the Inter-African Coffee Organisation called for a complete renegotiation of the 1968 Agreement (substantially the same as was drawn up in 1962) 'on equitable conditions for all countries that belong to the Agreement'.

The aims of the Agreement are given below.

1 *'to achieve a reasonable balance between supply and demand on a basis which will assure adequate supplies of coffee to consumers and markets for coffee to producers at equitable prices, and which will bring about long term equilibrium between production and consumption.'*

   No 'reasonable balance between supply and demand' has been achieved nor is it ever likely to be achieved while the ICO relies on its inefficient quota system to stabilise the forces of supply and demand.

2 *'to alleviate the serious hardships caused by burdensome surpluses and excessive fluctuations in the price of coffee to the detriment of the interests of both producers and consumers.'*

Despite this declared objective of the Agreement, many countries, particularly Colombia, Brazil and the Robusta producing countries still suffer from vast stockpiles of slowly rotting coffee, for the Agreement's diversification programme has scarcely altered the problems of over-production. How the Agreement hopes to alleviate the hardships caused by excessive fluctuations in the price of coffee while the price is still determined by a so-called free market – totally out of the control of the ICO – is anybody's guess. Although it is feasible for the ICA to dictate the price that must be paid for the four types, this will never be realised while the interests of the consuming nations of the ICA hold sway.

3 *'to contribute to the development of productive resources and to the promotion and maintenance of employment and income in the Member countries thereby helping to bring about fair wages, higher living standards, and better working conditions.'*

This aim of the ICA is contradicted immediately by the other aim of the ICA, which has been carried out in some areas of Brazil, to diversify into other crops. All too often 'other crops' is beef cattle grazing, as old coffee soil is virtually useless for anything else, and grazing requires minimal labour compared with coffee which is a labour-intensive crop. Fair wages is a meaningless phrase to the often starving migrant workers in Latin America, to the thousands who leave the huge plantations all over Latin America to crowd into the overcrowded shanty towns on the peripheries of the large cities. All the grand notions of 'fair wages, higher living standards, and better working conditions' are nothing more than words when black workers on Portuguese-owned plantations in Angola work with guns at their backs. None of these words will be realised until there is massive land reform throughout the producing countries, but the USA, the most influential importing Member of the ICO has done its utmost in the past to prevent any such land reform from taking place in Latin America. The large landowners of Africa and Latin America who try to block land reform programmes irrespective of their radical or mildly reformist nature are precisely the owners of the large coffee plantations.

4 & 5 *'to assist in increasing the purchasing power of coffee-exporting countries by keeping prices at equitable levels and by increasing consumption' and 'to encourage the consumption of coffee by every possible means.'*

The purchasing power of the coffee-exporting countries drops yearly not only because the ICO has no power to keep prices at equitable levels, but because the price of the manufactured goods imported from the industrialised nations (represented almost in totality at the ICO) soars yearly. Had the ICO been genuinely concerned with increasing the purchasing power of the coffee producing countries, it should have taken the fundamental steps of fixing the price of coffee in 1962 and raising it annually in accordance with the rising cost of industrial goods from the 'developed' countries.

The ICA hopes for increased consumption but products like tea and coffee have consumption ceilings in the developed countries which prevents any expansion above a nominal 3 or 4 per cent. In the USA, for example, consumption has been falling for the last five years despite Colombian efforts to popularise the image of Juan Valdez (the symbol for their coffee) on which they spend massive amounts on promotion campaigns throughout the USA.

The underdeveloped countries have failed to realise that most of their primary products can only increase revenue if they fix the prices themselves and by developing markets within their own countries. Indeed, the money now spent by the producing countries on costly campaigns in the importing countries, would be far better invested in campaigns in their own countries. This is beginning to be done by some nations, but there is little point for the governments of these countries to hope for increased revenue from a rise in consumption when the coffee supplying this increase is manufactured by foreign-owned companies, as is the case in the Ivory Coast (see p 9). Better still the money would best be spent on a good agricultural college or programme, as coffee has little or no food value. All too often coffee-producing countries have been trying to capture part of the tea producers' markets and vice-versa, resulting in costly promotion campaigns that squander valuable revenue in a never ending vicious circle.

6 The last object of the ICA is *'in general, in recognition of the relationship of the trade in coffee to the economic stability of markets for industrial products, to further international co-operation in connection with world coffee problems'* which states exactly for whose benefit the ICA was drawn up in the first place. Coffee is important only in so far as the exporting nations are also potential importers of industrial products, and unless the coffee situation is resolved the economies of these nations will never be able to support the importing of industrial products on the scale the developed nations need to export them. But this aim is very much in the long term; in the short term and in practice, the importing nations are concerned only with keeping coffee cheap and in supply. The governments of the developed countries care little for the long-term economic stability of the producing nations, and the drop in aid contributions in the USA, Britain and other European countries signifies this lack of interest in these long term economic interests.

Proposed solutions to the present situation

So far the ICO has been unable to effect even the mildest reforms to the present situation, let alone the radical solutions necessary. The ICO has failed because it is an association of both producing and importing nations, and the aims and objectives of the producing nations are too often at variance with the aims and objectives of the importing developed nations. The ICO seems to have ignored the needs and objectives of the producing nations, concentrating their efforts on keeping coffee cheap and in supply for the consuming nations.

The oil-producing countries (OPEC) have shown that so-called under-developed countries can resist the pressures of the developed world when demanding a fair price for their produce, and although coffee is not a strategic product like oil, it is an important commodity which is constantly in demand in the developed nations.

However, while certain governments of under-developed countries put immediate economic interests before the long term interests of their nations, and while they can be intimidated by the developed countries with threats of aid-withdrawal, it is unlikely that the necessary solutions to the present situation will be realised.

An agreement between the producing nations only, under which the actual prices at which coffee is to be sold on the market is predetermined by the producing countries, where quotas are fixed and adjusted by the producing nations alone, is the only agreement that is likely to alleviate the present conditions of coffee production and trade. Portugal should be excluded from any such coffee agreement as she is not a producing country. An independent Angola is the only country that should sign any agreement that includes the resources of Angola. Such an organisation should have sufficient power to insist on proper governmental control over coffee production in the individual countries. For, at present, in many of the countries where production is centralised under the control of the government, many government agencies are endemically corrupt.

It would be hoped that this new organisation would also be able to apply some pressure on its own member nations to initiate or effect radical agrarian redistribution programmes – such policies are vital if the coffee farmer or worker is to receive an adequate living wage let alone better working conditions or a higher standard of living. It remains to be seen whether individual governments when strengthened by the backing of an international organisation of coffee-producing countries, can face the pressure of large land-owners and plantation owners.

In addition it is imperative for the producing nations to control the production of soluble coffee – to set up their own processing plants and distribution networks. This would benefit the producing nations instead of multinational concerns like Nestlés.

Such an organisation as is proposed would also be more effective in carrying out diversification programmes, and in stabilising coffee production. Much of the present instability and many of the disagreements between producing nations e.g. between Arabica and Robusta producers, arise simply from the competition inherent in an 'open' market. Under a system where quotas and prices are fixed by the producing nations, it is hoped that some degree of co-operation would replace this needless competition.

The latest moves

Since this report was compiled, new skirmishes between the producing and consuming members of the ICO have taken place. As the US devaluation of the dollar has cost the Third World an estimated $1,000 million, the coffee producing countries have put forward a request for an increase of 4c per pound of coffee to offset their loss. Although some of the importing members of the ICO have expressed a willingness to accept a 2c increase as a compromise, the United States, supported by Canada, has refused, stating that price increases are illogical at this time and may be disruptive to market stability.

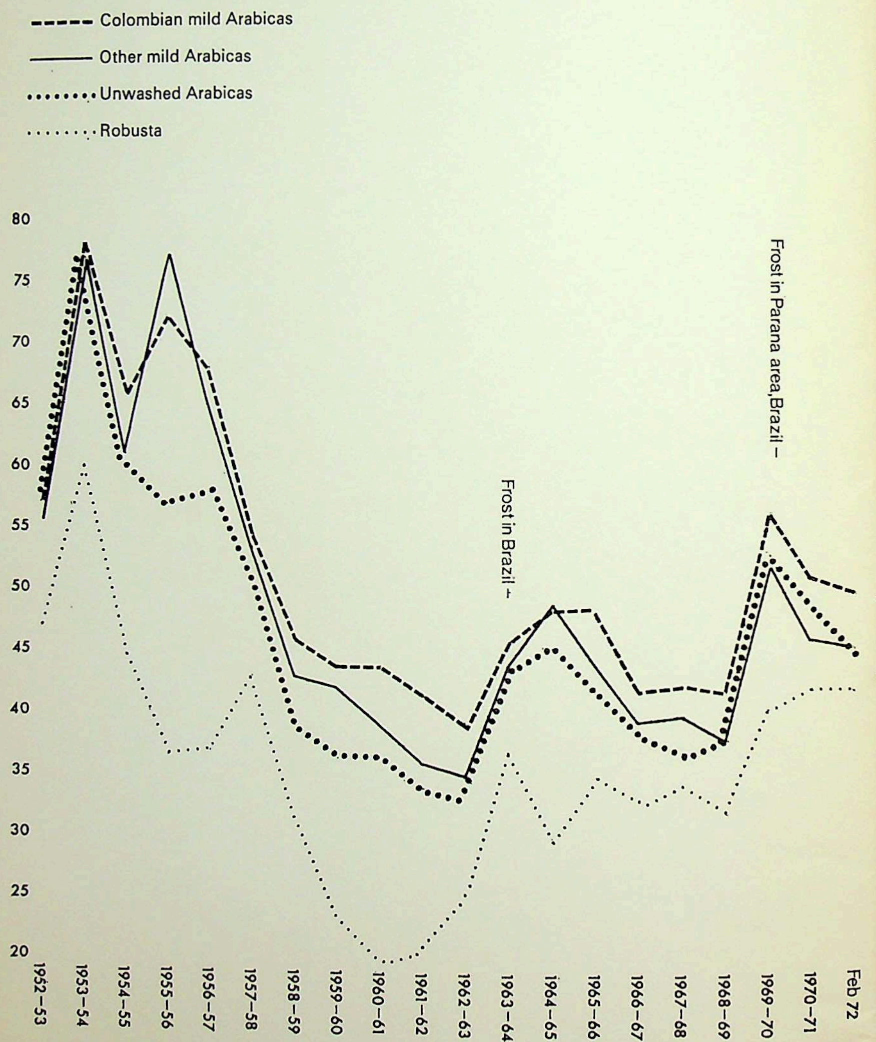
On February 23rd, Brazil and the Ivory Coast came to an agreement to co-ordinate coffee policies in order to increase the price of coffee and to strengthen the producers' bargaining power within the International Coffee Pact. On March 1st, the Ivory Coast Minister of Agriculture, Mr Abdulla Sawadogo stated that eight nations responsible for 80% of world coffee production will hold a meeting in April to study a common policy on higher coffee export prices. Mr Sawadogo said that 'these decisions are the result of a change in attitude on the part of the producer nations. The idea now is to forget their differences and pull together to counterbalance the effects of inflation in consumer nations and to guarantee higher income from their own coffee exports'.

In the US the State Department has given Congress a commitment that the Administration would reject a 4c per pound coffee price rise and a Senate Finance panel has ordered the first large-scale Government investigation into the International Coffee Agreement before sending to the Senate floor legislation extending US participation in the Coffee pact until September 30th 1973, the date of the expiration of the present Coffee Agreement.

A working party set up by the ICA Executive Board to examine the case for a 4c increase adjourned on February 25th, having failed to come to an agreement, and is to meet again on April 17th in London.

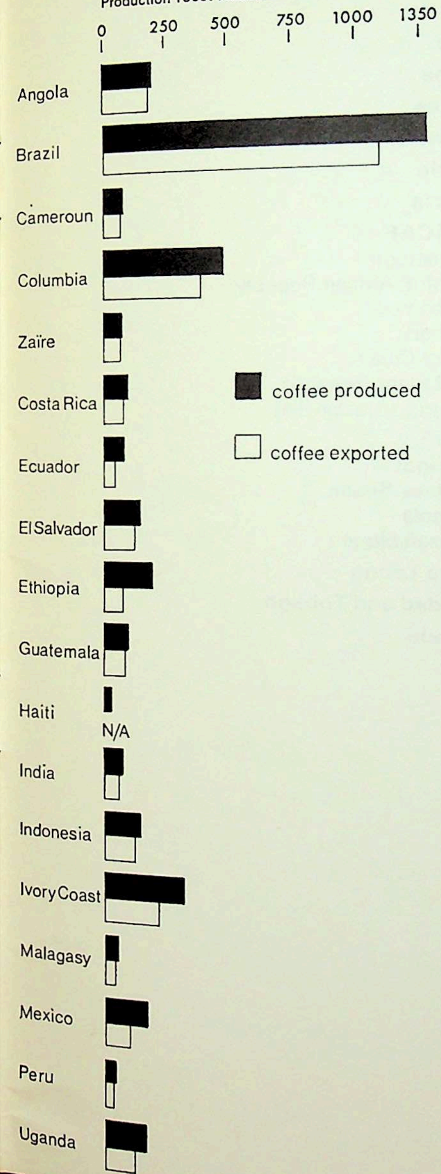
Appendices

Average annual price 1952/53 to 1971 cents (US) per pound

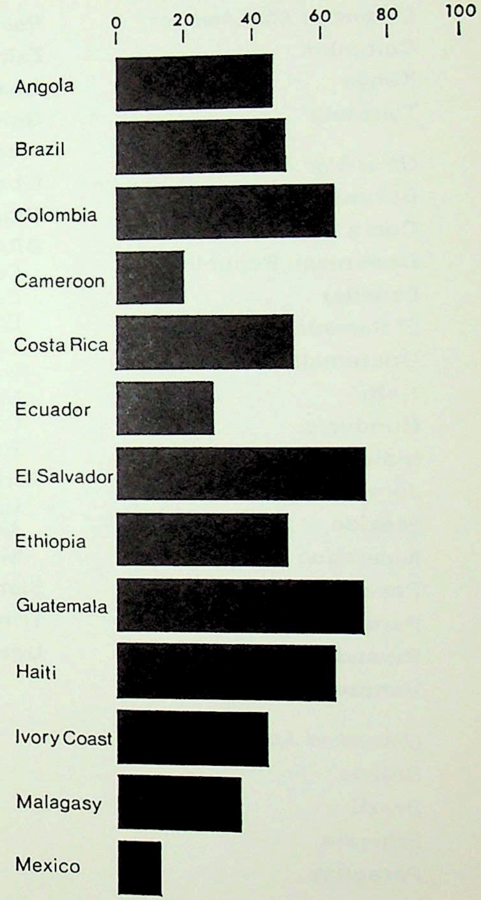


Production and Exports 1969

Production 1969: thousand metric tons



Coffee as percentage of Export earnings (est 1969/70)



Producing countries and type of coffee grown

Colombian Mild Arabicas

Colombia
Kenya
Tanzania

Other Mild Arabicas

Burundi
Costa Rica
Dominican Republic
Ecuador
El Salvador
Guatemala
Haiti
Honduras
India
Jamaica
Mexico
Nicaragua
Panama
Peru
Rwanda
Venezuela

Unwashed Arabicas

Bolivia
Brazil
Ethiopia
Paraguay

Robustas

Zaïre
Ghana
Guinea
Indonesia
Liberia
Nigeria
OAMCAF
Cameroon
Central African Republic
Dahomey
Gabon
Ivory Coast
Malagasy Republic
Congo (Brazzaville)
Togo
Portugal
Guinea Bissau
Angola
Mozambique
Sierre Leone
Trinidad and Tobago
Uganda

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