Brewing a Bitter Cup?

Deregulation, Quality and the Re-organization of Coffee Marketing in East Africa

Ponte, Stefano

Document Version
Accepted author manuscript

Published in:
Journal of Agrarian Change

DOI:
10.1111/1471-0366.00033

Publication date:
2002

This is the accepted version of the following article: Ponte, S. (2002) "Brewing a Bitter Cup? Deregulation, Quality and the Re-organization of Coffee Marketing in East Africa," **Journal of Agrarian Change**, Vol. 2, No. 2, pp. 248-272.
DOI: 10.1111/1471-0366.00033
It has been published in final form at: http://onlinelibrary.wiley.com/doi/10.1111/1471-0366.00033/abstract

Brewing a Bitter Cup? Deregulation, Quality and the Re-organization of Coffee Marketing in East Africa

Abstract

To what extent is global economic change mediated by national-level policies? Are global corporations adopting the same strategies in different countries or do they address varying local circumstances in different ways? Do governments in developing countries have any meaningful regulatory powers left? This paper seeks to address some of these issues by studying the dynamics of coffee market reforms in three East African countries in the background of the recent restructuring of the global coffee marketing chain. The paper focuses on two relatively neglected areas of inquiry: (1) changes in the identity, market share and organization of actors involved in commodity markets and their contractual/power relationships in the marketing chain; and (2) changes in the assessment, monitoring, and valuation of quality parameters in commodity trade. The author highlights the consequences of different trajectories of domestic market reforms and discusses whether the preservation of quality and reputation is possible in deregulated markets.

1. Introduction

This paper examines the relationship between changing forms of regulation, quality control procedures and performance, and the organization of commodity markets in producing countries through a Global Commodity Chain (GCC) approach. It focuses on the coffee marketing chains originating in three East African countries (Kenya, Tanzania and Uganda). Three major changes that took place in global markets for agricultural commodities in the last two decades are relevant for the discussion of GCC restructuring. First, the trade regime characterized by International Commodity Agreements ended in the late 1980s, and was followed by the demise of preferential trade agreements (Lomé Conventions) and the emergence of the WTO trade regime. Second, market liberalization and deregulation of trading, processing and quality control practices in producing countries has occurred, leading to the demise of countries as 'producer units' and to an institutional system where producers do not have an established 'voice'. Third, corporate strategies and consumption patterns have changed markedly in the last decade. The adoption of supplier-managed inventory, corporate consolidation, the increased importance of branding, and the fragmentation and increased diversification of consumption have transformed power relations in markets to the advantage of buyers rather than producers. These shifts have had major consequences on the organizational structure of commodity chains, on their mode of governance, on the nature of enterprise ownership at various 'nodes', and on the distribution of value added between actors involved in the chain.

Why a Global Commodity Chain (GCC) approach?

In the literature on GCCs, 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 organization of production, trade and consumption of the globalized 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-organizational networks clustered around one commodity or product' (Gereffi *et al.* 1994, 3), in which networks are situationally specific, socially constructed, and locally integrated (Ibid.).

Gereffi identifies four dimensions of GCCs: their input-output structure, the territory they cover, 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.

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 industrialized countries, brand-name merchandisers, and trading companies are the key actors in setting up decentralized networks of producers in developing countries. Because of the changes that have taken place in distribution and retailing in industrialized 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 organizational structures and strategies of agriculture than a sectoral approach (Raynolds 1994, 143-4; Raikes, Jensen and Ponte 2000).

Why a focus on market organization and quality?

Experiences of commodity market reform and outcomes in terms of supply response have varied enormously in developing countries, depending on the specific commodity in question, the country examined, and the initial nature of domestic markets before reform implementation. Yet, a couple of common traits emerge in the literature. Market reforms usually lead to prompt cash payments and a higher proportion of the export price being paid to farmers, although price volatility increases because of the end of price stabilization mechanisms. Peripheral farmers are particularly affected by the elimination of pan-territorial pricing and market failures in input distribution. Access to credit for local traders and farmers becomes more difficult. The private sector becomes substantially involved in producer-country processing. Finally, cooperatives and former parastatals lose substantial proportions of their market share to the advantage of private traders – especially those owned/financed by multi-national corporations (MNCs).[3]

While these are now recognized traits of commodity market reform, two other key areas of inquiry have been relatively neglected: (1) the identity, market share and organization of actors involved in commodity markets and their contractual relationships upstream (towards producers), downstream (towards consumers) and sideways (with providers of inputs and services); and (2) changes in the assessment, monitoring, and valuation of quality parameters of the traded commodity. Market organization and types of contractual relationships need to be understood because they identify the dynamics of power relations among actors involved in the production, trade, processing and consumption of a commodity. Liberalization of agricultural commodity markets in Africa has led to substantial involvement of MNCs in domestic trade and processing, sidelining ‘independent’ traders who find it more difficult (and more expensive) to access working capital domestically. One of the concerns raised by critical analysts of liberalization is the possibility that market domination by a few large scale actors will result in non-competitive behaviour at the expense of producers. The forms of coordination among actors (if any) and the type of contracts they formulate to organize their operations are also key points in understanding whether institutions arising from liberalization simply minimize transaction costs (if they do this at all), or whether they also embed forms of asymmetrical power relations.

---

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

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

[3] See Akiyama *et al.* (2001), Ponte (2001a; 2001c), Raikes and Gibbon (2000), Shepherd and Farolfi (2000), and Townsend (1999).

Analyzing quality aspects of commodities is also germane to understanding the dynamics of liberalized markets because reforms affect the form, timing and pricing mechanisms of commodity trade, therefore affect farmers' welfare through possible changes in reputation and price premia. Changes in quality also affect the role of a national or sub-national crop in a global commodity market and the organization of marketing operations. Just focusing on the fact that farmers have been paid a higher share of the export price after liberalization does not tell us anything about the changes in the overall price paid for a commodity, which is a function not only of demand-supply-stocks relations, but also of quality and reputation.

One of the results of market liberalization that is eagerly underlined by promoters of reforms is increased buyer competition. Yet, when resulting in early buying rather than in price competition or the search for higher quality crops, buyer competition has led to purchasing of crop that is not ready to be marketed – i.e. unripe cotton and wet coffee. An aggravating factor is that price volatility (which has increased since liberalization) tends to hit low-grade produce more than high quality produce. Also, where the private sector has not set up a system of buying in grades, there has been no direct incentive for producers to improve crop quality. Quality control functions in the single-channel marketing system took place both at the cooperative level and at the marketing board level for export. In the post-liberalization regime, the first level of quality control has been often lost, and the second one has been retained by the public sector in some cases (coffee and cotton in Tanzania, coffee in Uganda), or contracted to the private sector in others (coffee and cocoa in Côte d'Ivoire). Liberalization of commodity trade and processing has often led to deteriorating export crop quality in several countries and, in some cases, to price discounting in international markets and loss of reputation for a 'national' crop. This may explain part of the observed relative decrease of unit export values for African 'traditional' export crops (Raikes and Gibbon 2000).[4]

Why coffee?

The examination of the coffee marketing chain is particularly important in the context of GCC analysis. First, over 90 per cent of global coffee production takes place in the South, while consumption takes place mainly in the North.[5] Therefore, from a political economy perspective, the production-consumption pattern provides insights on North-South economic relations. Second, for most of the post-World War II period coffee has been the second most valuable traded commodity after oil.[6] 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 African countries, even those with a low share of the global export market, rely on coffee for a high proportion of their export earnings (see Table 1). 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 liberalization took place in the 1980s and 1990s. Therefore, the analysis of the coffee marketing chain provides key insights for the understanding of the changing shape of African economies in relation to changes in the global economy and the liberalization of domestic-level commodity trade. The focus in this paper is on the segment of the coffee chain from the producer to

---

4 This has been the case at least for coffee and cotton in Tanzania, coffee and cocoa in Côte d'Ivoire, and cocoa in Nigeria and Cameroon.

5 The major exception is Brazil, which is the top producer and also one of the main consuming countries in the world. In Africa, the only country with substantial coffee consumption is Ethiopia.

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

the point of export. Some processes of global restructuring of the coffee chain are described below, but those looking for a detailed account should turn elsewhere (Fitter and Kaplinsky 2001; Ponte 2001b; Talbot 1997b).

Why Kenya, Tanzania and Uganda?

The rationale behind the choice of the three countries is to compare the dynamics of restructuring of the coffee marketing chain in locations with different degrees and trajectories of liberalization. Kenya has not substantially liberalized its domestic market (except for processing), and runs an export auction system. Tanzania liberalized its domestic coffee market in the mid-1990s, but has retained strong regulatory powers through its coffee board, which still runs an auction system similar to Kenya's. Uganda swiftly liberalized its domestic coffee market in the early 1990s, and the coffee regulatory body has a relatively 'light hand' on the market. These differences have to some extent mediated the impact of global changes on the functioning and organization of domestic markets, coffee quality control procedures, competition, pricing systems, incentive structures, and contractual relations among actors. The material presented here is based on six months of fieldwork carried out in East Africa in the second half of 2000.[7]

Organization of the paper

The next section of the paper draws attention to a series of key changes that have taken place in the governance structure and institutional framework of the global coffee marketing chain. Against this background, the third section presents a brief analysis of the changing role of East African coffees in the world coffee market. The fourth section examines the salient traits of coffee market liberalization and deregulation in Kenya, Tanzania and Uganda and discuss how reforms affected market organization, the make-up of actors involved in the chain, relationships among actors and quality control and performance. A detailed examination of the three case studies can be found in the Appendix. The final section highlights the consequences of different trajectories of domestic coffee market reforms and discusses whether the preservation of quality and reputation is possible in deregulated markets.

2. The international setting: The restructuring of the global coffee chain

The evolution of coffee marketing in East Africa does not depend exclusively on the process of domestic market liberalization, but also on key transformations that are taking place in the global coffee chain. The essential characteristics of the global coffee chain in the last 40 years are best grasped in terms of a distinction between two broad historical periods: the International Coffee Agreement (ICA) regime (1962-89) and the post-ICA regime (1989-present). The first International Coffee Agreement (ICA) was signed 1962 and included most producing and consuming countries as signatories. Under the ICA regime, a target price (or a price band) for coffee was set, and export quotas were allocated to each producer country. When the indicator price calculated by the International Coffee Organization (ICO) rose over the set price, quotas were relaxed; when it fell below the set price, quotas were tightened. If an extremely large rise in coffee prices took place (as in 1975-77), quotas were abandoned until prices fell back within the band.

[7] A detailed discussion of the methodology employed can be found in Ponte (2001d).

Although there were problems with this system, most analysts agree that it was successful in raising *and* stabilizing coffee prices (Akiyama and Varangis 1990; Bates 1997; Daviron 1996; Gilbert 1996; Palm and Vogelvang 1991).

The relative success of the ICA regime is attributed to various factors: (1) the participation of consuming countries in the workings of the quota system; (2) the existence of producing countries as 'market units', where governments were in control of decisions concerning exports; (3) Brazil's acceptance of its shrinking market share that resulted from successive ICAs; and (4) an initial common strategy of import substitution in producing countries, which required maximum mobilization of export earnings (and therefore high commodity prices) (Daviron 1996, 86-9). However, the ICA system was eventually 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 growing 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).

During the ICA regime, the global coffee 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 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 inherent stabilizing force of the ICA, coupled with regulated markets in producing countries, created a relatively stable institutional environment where rules were relatively clear, change politically negotiated, and proportions of generated value added fairly distributed between consuming and producing countries. The relatively homogeneous form of trade limited the possibilities of product upgrading, but producing countries ensured product valorization through higher prices generated by the ICA (Ponte 2001b).

On the contrary, the post-ICA regime exhibits many of the characteristics of what Gereffi (1994) calls a 'buyer-driven' chain. 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 supplier-managed inventory (SMI) has added new requirements that international traders must fulfil to be part of the game. The need to guarantee the 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 done simply as a result of market liberalization. Out-sourcing supply management is also an instance of the upstream externalization of non-core functions that is peculiar to many 'buyer-driven' chains. Likewise, new requirements set by roasters on the 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 (ibid.).

The institutional framework within which the coffee chain operates has changed dramatically as well. Market relations have replaced political negotiation over quotas. Producing countries have disappeared as actors in these interactions, with the exception of not-so-successful retention attempts under the umbrella of the Association of Coffee Producing Countries (ACPC). The ICO has become a relatively empty institutional shell. Domestic regulation of coffee markets plays an increasingly weaker role. 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 value added generated in the coffee chain has been transferred from farmers to consuming country operators (see Talbot 1997a; Pelupessy 1999).

3. East Africa in the global coffee market

Coffee used to be the most important export crop produced in Africa. In 1984-86, it represented a staggering 24 per cent of the total value of African agricultural exports (Raikes and Gibbon 2000, 61). By 1996-98, this proportion had decreased to 11.5 per cent and cocoa had become the top export crop with 13.5 per cent of total agricultural exports in the continent (source: FAO trade yearbook 1998). Yet, a number of African countries – even those with a low share of the global export market – still rely on coffee for a high proportion of their export earnings. In Africa, 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 2001d).

Brazil and Colombia have been the undisputed top world coffee producers for most of the 20th century. This situation has recently changed with the extremely fast growth of coffee production in Vietnam. In 1999/00 Vietnam replaced Colombia as the world second largest producer. Africa's share of total production has decreased from 18-19 per cent in 1995 and 1996 to around 15-16 per cent in later years. The coffee trade is organized around two coffee species (Coffea Arabica – hereafter 'Arabica', and Coffea Canephora – also known as 'Robusta') and two primary processing methods ('wet' and 'dry'). With the 'wet' method, the end result is 'Mild' (or washed) coffee, normally of the Arabica type.[8] With the 'dry' method, 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 product ready for export is called 'green' coffee (Brown 1991, 3-7). Most international coffee trade consists of this coffee, packed in 60-Kg bags.[9]

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 (McClumpha 1988, 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 of Colombian Milds 'C' contracts quoted at the New York Coffee, Sugar and Cocoa

[8] Some Robusta coffee is also processed with the wet method, but its volume in the international trade is insignificant.
[9] 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 longer periods of time, while roasted coffee loses its freshness much more quickly (Talbot 1997b).

Exchange (CSCE). The reference price for Robusta coffees is set at the London International Financial Futures and Options Exchange (LIFFE).

The International Coffee Organization (ICO) categorizes exports by type of coffee. As we can see in Table 1, 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. Another ICO category comprises Robusta coffees from all origins. Here, Vietnam is by far the main producer, but Côte d'Ivoire, Indonesia and Uganda are also major players.[10] 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 Costa Rica and Guatemala coffees at the high end of the scale), by Brazilian Naturals, and finally by the wide spectrum of Robustas (McClumpha 1988, 14).

TABLE 1

Although the total share of coffee exports from African countries is relatively marginal, some African producers play an important role in the world coffee market: Côte d'Ivoire for the volume of its Robusta production; Uganda for the volume and the special quality of its Robusta; and Kenya for its fine quality coffees. Generally, Tanzanian coffee is used as a substitute for Colombian, and Ethiopian coffee as a substitute for Brazilian. In the 1990s, East African exports represented on average 35 per cent of total African exports of green coffee and six per cent of total world exports (FAO data). Kenya and Tanzania, even with a low proportion of global coffee exports, have played an important role in the category of Colombian Milds. Uganda is currently the fourth world exporter of Robusta coffee. In the 1990s, cumulative exports from East Africa ranged from 4 to 5.5 million bags, except for peaks over 6 million bags in 1993/94 and 1994/95. Coffee exports in Kenya have remained in the range of 1.4 to 1.6 million bags, with the exception of lower production in 1991/92 and 1992/93 and a peak of almost 1.9 million bags in 1994/95. Tanzanian coffee exports have ranged between 650,000 and 950,000 bags (except for 1992/93). Ugandan exports have ranged between 2.8 and 4.2 million bags between 1990/91 and 1996/97, but have declined substantially in later years due to the impact of wilt disease (see Figure 1).

FIGURE 1

Kenya

Kenya is world famous for its fine quality coffee. The bulk of Kenyan production is Mild Arabica, approximately 60 per cent coming from smallholders and 40 per cent from estates. Almost all coffee is processed at the primary level in central pulperies run by cooperatives or estates. Small amounts of top Kenyan coffee find their way in most coffee blends and give a specific flavour to them. Good Kenyan coffee is also sought after by the specialty industry and sold as 'single origin' coffee. According to industry actors, the premia paid in the past for select Kenyan coffees were above their analytical quality value. Particularly, in the period between December 1996 and March 1999, the premium for Kenyan AB FAQ (Fair Average Quality) exceeded 50 cents per pound over

[10] 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 main type of coffee they produce.

the New York reference price, with peaks of up to 225 cents over. Between June 1999 and the present, however, the premium has been revised downwards to a relatively stable level of 10 to 20 cents per pound over New York. According to some exporters active in Kenya, it is difficult to tell at what 'real' level Kenyan AB FAQ trades in relation to the New York market. There are big differences between the description of FAQ provided by exporters with 'good reputation' and by 'other exporters'. The reputation of Kenyan coffee seems to have suffered not because of a fall in the intrinsic quality of its coffee, but because the FAQ description itself has been downgraded.

The origin differential is much more unstable in Kenya than in Colombia, where there are only three coffee descriptions that are also much more transparent and constant over time than in Kenya. As a result, Kenyan exporters are reluctant to sell forward to their clients, while Colombian coffee can be traded up to two years forward. No exporter of Kenyan coffee will commit to selling for more than four months forward for top grades and perhaps six months for lower grades. This is because, while exporters can hedge overall market price instability by operating in the futures market, they cannot hedge the differential from an origin.

Generally, the quality of Kenyan coffee is uneven. According to exporters, there are very fine coffees in the country, but also a lot of poor coffee, which is usually over-fermented. The best Kenyan coffee comes from smallholders. Estates have not been able to reach high levels of quality because a lot of them cut labour costs by not separating green cherries from ripe ones at the central pulperies. According to one exporter, 'estates in Kenya are the equivalent of "coffee ranching"'. Cooperative pulperies do not have to worry too much about economizing labour because they deduct its cost from farmers' payments and have no competition from private operators. This is extremely important because what makes Kenyan coffee so special is the top-end quality coffees. As long as these coffees are available, they push up the price of all other types of coffee as well. Therefore, quality management is the key aspect of the Kenyan marketing chain.

Tanzania

Tanzania produces all three types of internationally-traded coffee: Mild Arabica, Hard Arabica and Robusta. Mild Arabica is the most important in terms of volume and value, followed by Robusta and smaller amounts of Hard Arabica. Most Tanzanian coffee (95 per cent) is produced by smallholders, although estate production is set to increase in the near future. Almost all smallholder coffee is processed at the primary level by farmers – by hand-pulpers for Mild Arabica, and by simply drying the coffee in the case of Hard Arabica and Robusta.

Tanzanian Mild Arabica coffee has a less intense flavour than Kenyan Mild Arabica. However, the quality of Tanzanian coffee is much more homogeneous than in Kenya. The top Kenyan coffee is better than the top Tanzanian coffee, but the bottom Kenyan coffee is worse than the bottom Tanzanian. In general, Northern Tanzanian coffee is a substitute for Colombian coffee. It used to trade at a premium over Colombian, but lately this premium has decreased.[11] Northern Tanzanian coffee is very neutral and is suitable as filler in a blend. The major difference in the quality profile between Kenyan and Tanzanian coffee derives from the first stage of primary processing. Most Kenyan coffee is processed in central pulperies, while Tanzanian coffee is normally hand-pulped by

[11] 'Colombian Private' has fetched between 0 and 20 cents over New York between April 1993 and the present (except for 1996/97).

the farmer. Tanzanian estates in the 1960s used to produce coffees that were of comparable quality to top Kenyan coffee. After their nationalization in the early 1970s, both the quality and quantity of coffee produced by these estates dropped dramatically. As a result, the overall reputation of Tanzanian coffee suffered. Since the late 1990s, efforts have been under way to rehabilitate these estates by leasing them to private operators. For the moment, some top quality Northern Tanzanian coffees can achieve comparable quality to Kenyan ones but does not attain the same premium due to poorer reputation.

Southern Tanzanian coffee has a fruity flavour that is suited mostly for the German market. This feature arises from poor fermentation at the primary processing level due to shortages of running water. Southern Tanzanian is usually compared to Papua New Guinea Y coffee and is sold at a small discount under New York, except in cases of extreme shortage of other Milds (as in early 1994 and in 1996/97). In recent years, Northern and Southern Tanzanian coffees have been trading at approximately the same levels. Tanzanian Robusta is fairly similar to Ugandan Robusta (see below). As a matter of fact, in 2000/01 substantial amounts were smuggled into Uganda from the border region of Kagera. Hard Arabica can be used as a substitute for Brazilian Hards, but the size of the market is so small that it has limited significance.[12]

In Tanzania, forward contracts are used more than in Kenya because traders have access to the domestic market (see below) and because the origin differential is less unstable. Therefore, supply contracts up to six months forward for smallholder coffee and 12 months for estate coffee are not uncommon. The present role of Tanzanian coffee, as a filler in blends and/or a substitute for Colombian coffee, means that it needs to remain price competitive. Because Tanzanian coffee is threatened by substitution by other producers, keeping production and marketing costs low is an essential feature of the trade in the country. An exception to this rule applies to some 'Kilimanjaro' Milds that are sold as 'single origin' coffee on the Japanese market (at high premia, at least in the past), and on the American and European specialty markets. Another exception is 'peaberry' coffee which is particularly appreciated for its physical appearance in the US market.

Uganda

Uganda exports primarily Robusta, but also some Mild Arabica and a little Hard Arabica. Ugandan Robusta is important in the global market for its volume and because of its neutral flavour. These characteristics make it of higher quality than the harsher West African and most Asian Robustas. Ugandan coffee is considered one of the best Robusta coffees in the world. There are Robustas of similar quality available (Brazilian and Indian/Bangalore) but not with the volume available in Uganda (Brazilian Robusta is consumed domestically). As a result, it commands a considerable premium over LIFFE.[13]

Although there is no clear competitor on the quantity/quality dimension, Ugandan Robusta is threatened by roasters' changing strategies. Vietnamese Robusta is much cheaper than Ugandan, and roasters are trying to blend it with a small amount of Mild Arabica to achieve similar flavour profiles. In general, international traders argue that roasters have achieved more flexibility in their

[12] 'Brazilian Swedish' Hard Arabica traded between –20 and +5 cents per pound over New York between January 1992 and August 1998, except for higher peaks in 1995/96 and early 1998. From May 1998 to the present it has been trading at –15 to –25.
[13] For example, at the beginning of May 2001 Ugandan screen 15 was quoted at $70 to $100 per metric ton over LIFFE. Ivorian Grade 2 was exchanged at $40 over; Vietnam was traded at $ 160 to 180 under (all premia valued on fob basis).

blending processes and seem to be decreasingly committed to particular origins. Some roasters are still committed to Ugandan Robusta and pay a good differential for it (Sara Lee, Dougwe Egberts). Italian roasters request it for the foam that it creates on top of espresso. On the contrary, Nestlé and many Spanish roasters have switched from Ugandan to Vietnamese Robusta.

Ugandan Robusta can normally be sold up to 12 months forward. Recently, exporters have been more reluctant to do so because of high levels of competition in domestic buying, which make domestic purchasing prices unpredictable. Also, there have been questions over its availability in the mid-term. Production in 2000/01 was expected to reach 1999/2000 levels (about three million bags). But in two-three years, exporters fear that it could fall to two million bags due to the impact of wilt disease. As quantity declines, the differential is bound to increase. Under these circumstances, more roasters are likely to exclude Ugandan Robusta from their blends.

East African coffees are facing different threats in the world market. The most secure position seems to be Kenya's, as long as reputation and quality profiles for its top coffees can be maintained. Tanzania is threatened by cheaper origins and does not have the quality or quantity features that Kenya and Uganda can use to their advantage. Its relatively small crop is also divided into three different types of coffee, further fragmenting its importance in any of these markets. Uganda's falling production and changing roasters' blends may marginalize it in the future *vis à vis* cheaper origins unless coffee wilt disease is tackled. In the next section, I analyze the changes in the organization of the marketing chain and quality control procedures that have taken place in the three East African countries in the last decade. In the concluding section, I assess how the process of market liberalization has affected the possible responses of governments and coffee industries in Kenya, Tanzania and Uganda to challenges emerging in the global coffee market.

4. Liberalization, market restructuring, and quality

The organization of coffee marketing and quality control before liberalization

The organization of coffee marketing previous to market liberalization in the three East African countries is depicted in Figure 2. In Kenya and Tanzania (plus Uganda for Mild Arabica), domestic trade of parchment, dry cherry and green coffees was under the control of cooperative societies/unions and marketing boards. Formally, coffee did not change hands until it was sold to private exporters at the auction. Farmers (through the cooperatives) owned the coffee up to the export point and bore the price fluctuation risk. However, the payment system allowed a smoothing out of price variations within the marketing year. Farmers were paid the same price irrespective of when they had delivered coffee to the cooperative, and of when their particular coffee was sold. In Uganda, cooperative societies and unions competed with private buyers/hullers for the procurement of dry cherry (Robusta) from farmers. Both cooperatives and private operators operated under fixed producer prices and fixed margins (as in the *caisse* system of West Africa). All hulled coffee was sold to the Coffee Marketing Board (CMB), which was the sole exporter (Akiyama 2001, 96). The price stabilization mechanism was facilitated by the practice of forward sales arranged by CMB with importers.

FIGURE 2

In all three countries, farmers received payments in relation to the quality of Mild Arabica coffee they delivered. The handling and payment systems were fairly laborious and slowed down the flow of coffee from the farmer to the importer. Overhead costs associated with these procedures were high, meaning that farmers received a lower proportion of the export price than they would have in a more efficient system (quality considerations being equal). Payments to farmers were often late and resources were siphoned out of the system at various levels. However, price stabilization was ensured within one season. Most important, the system provided quality incentives to cooperative societies and (less directly) to farmers. Quality considerations are generally more important for Mild Arabica than for Robusta and Hard Arabica. For Robusta and Hard Arabica, it is virtually impossible to determine the quality of the bean inside the dry cherry when is delivered. Quality control at the primary level is then limited to removing foreign matter and under-dried cherries. For large consignments, a huller operator can take a sample of dry cherry, hull it and assess out-turn, humidity level, defect count, and smell. This is not feasible when collecting relatively small amounts from smallholders. Therefore, in the Robusta sector, there is a necessarily less direct link between quality and price at the farmer level. However, at least in Tanzania, there was a quality incentive on the output delivered by cooperative societies. Societies that delivered bigger beans with lower defect count were paid more. Their farmers were paid more as well.

In East Africa, the organization of exports followed two different models before liberalization. Kenya and Tanzania had auction systems for exports. In Uganda, exports were arranged by the marketing board. In Kenya, until the mid-1980s, the majority of the shares of export companies could not be formally owned by non-Kenyans. Therefore, international traders and roasters could not fully integrate vertically into the export sector, but had to resort to joint ventures or contractual relationships with local companies. In later years, because of the easing of these restrictions and increasing difficulties in getting finance from local banks, many independent exporters were taken over by international trading houses or resorted to them for financing. This process involved 'old' local companies such as C. Dorman, which entered into a long-term financial agreement with ED&F Man (a mid-size international trader) in the mid-1980s, and Taylor Winch, which was taken over by Volcafé (the No.2 international trader) in 1991.[14] Still, monopoly in domestic trade and the auction system ensured that even smaller exporters could survive as long as they could manage to obtain finance from international traders or banks. This meant that competitive bidding continued to characterize the auction, especially for top-quality coffees. A similar situation was present in Tanzania. The difference was that most exporters attending the auction in Tanzania were either based in Kenya or operated as subsidiaries of Kenyan export companies. In Uganda, before liberalization, private buyers and hullers were local companies of small size. There was no formal involvement of foreign companies even at the export level, since CMB was the sole exporter.[15]

The effects of liberalization

In the following discussion, I examine the main features that emerged from different paths of liberalization of the coffee marketing chains in Kenya, Tanzania and Uganda. I focus on the changing organizational structure of the coffee chains, the types of actors involved in domestic procurement, processing and export markets, and changes in coffee quality. This is a concise summary of the main findings emerging from fieldwork material. An in-depth examination of the three case studies can be found in Ponte (2001d).

[14] Rankings for international traders and roasters are based on market share in 1998 as in van Dijk *et al.* (1998).
[15] However, international traders had their agents in Uganda to check consignments, monitor the crop, and facilitate export logistics.

FIGURE 3

In Kenya, the liberalization process has been minimal, and the regulatory structure of the coffee trade (including quality control procedures) has been preserved almost in its entirety (see Figure 3). Exporters can only buy Kenyan coffee at the auction and domestic marketing is still channelled through cooperatives and estates. Liberalization has taken place only at the processing level. Cooperatives and estates can now also choose their own payment agent,[16] but all these services are provided on a fee-basis only. Coffee is bought and sold only at the auction. Even though the coffee market has not been liberalized, an increasing number of 'local' exporters have sought alliances with MNCs (through ownership or finance contracts). In this way, they can get easier and cheaper access to working capital (in view of the contemporary credit crunch in the domestic banking sector) and easier access to the more sophisticated risk management and marketing tools that are needed in an increasingly unstable global coffee market. Yet, the export market is still fairly fragmented because the capital requirements for buying coffee at the auction are much smaller than what would be required to buy parchment in domestic markets, where these markets are liberalized. MNCs control only about one third of the export market through direct subsidiaries (see Table 2). Because preserving high quality is critical to the marketability of Kenyan coffee in the global market, MNCs have been against the liberalization of domestic marketing and are insisting on the maintenance of the auction system. As a result, coffee quality has been maintained at high levels (see Table 3), the auction is still characterized by competitive buying, and Kenya has been able to live up to its international reputation.

TABLES 2 AND 3

Tanzania, on the contrary, has largely liberalized domestic trade and processing (see Figure 4), although regulatory requirements are quite demanding at all levels of the marketing chain. As a result of liberalization, and in order to establish market share, MNC exporters have vertically integrated into processing, domestic trade and in some cases even estate production. Tanzania still runs a mandatory export auction, but the majority of coffee going through the auction is simply re-acquired by the same company that bought it domestically. Thus, there is little or no competitive bidding for this so-called 'captive' coffee. The market share of cooperative unions in both domestic marketing and processing has decreased substantially to the benefit of the private sector. MNCs are now dominating domestic procurement, processing and export markets in Tanzania (see Table 2). They control more than half of the export market through direct subsidiaries and another substantial proportion through finance agreements with local companies. As the domestic market matured in the years following liberalization, and as international prices tumbled in the late 1990s, MNCs started outsourcing some of the functions they previously performing (transport, primary buying, input distribution).

FIGURE 4

TABLE 4

[16] Before 'liberalization', cooperatives and estates could be paid for the coffee that had been sold at the auction only through the union operating the main curing plants on a monopoly basis (KPCU – see Appendix). Presently, cooperatives and estates can appoint alternative 'payment agents', such as banks and other financial institutions or other emerging commercial curing companies.

On paper, the old system of quality control in the marketing chain has been preserved in Tanzania, but this is true in practice only at the export level. Quality control at the primary level has broken down and buyers purchase coffee from farmers often too wet (especially at the beginning of the season), and at one price – irrespectively of quality. The cooperatives have to compete with private buyers on the basis of their first payment to farmers; therefore, the multi-payment system that ensured a price-quality incentive has disappeared. Even though new privately-owned processing plants have reduced quality losses at the curing level, the overall result has been a deterioration of the export quality of Tanzania coffee (see Table 4). Because the reputation of Tanzania's coffee is lower than Kenya's, the same MNCs that are against liberalization in Kenya have encouraged it in Tanzania and are lobbying for the elimination of the auction system as well. Furthermore, only the few exporters that are involved in procuring specialty coffee from smallholders have been involved in trying to re-establish some quality control procedures. Those who procure specialty coffee directly from estates are not interested in improving the formal quality control system because they bypass it. Exporters who see Tanzania simply as a 'fair average quality' (FAQ) market are more interested in controlling market share and in turning around capital quickly than they are in upgrading quality. This is likely to 'hem in' Tanzania to the FAQ market without the positive benefits of having a large crop. In turn, this will marginalize Tanzanian coffee, except for a few estates catering to the specialty coffee sector.

FIGURE 5

TABLE 5

Finally, in Uganda the process of liberalization and deregulation has reached the most advanced degree in East Africa, although it is still more regulated than in other coffee producing countries where there are no formal export certification procedures. Full liberalization of the marketing chain has prompted a proliferation of private export companies, primary-level buyers, hulling plants and export processing plants (see Figure 5). The cooperative sector has almost disappeared. Following liberalization, and because of favourable trade margins in the mid-1990s, the number of active exporters increased dramatically while MNCs attempted a process of vertical integration to establish market share and internalize profits. As international prices fell in the late 1990s, the number of exporters decreased substantially and MNCs consolidated their presence. However, low entry barriers in the domestic trade and hulling segments of the chain meant that MNCs eventually gave up (or chose to abandon) attempts to control them. These sectors are now mostly in the hands of a large numbers of small- to medium-scale local enterprises. In the late 1990s, MNCs were exporting at a loss from Uganda due to low international prices, high competition in the domestic market that kept producer prices relatively high, and direct buying by some roasters from local exporters. By bypassing MNC trading houses, these roasters could afford to pay local exporters higher prices. Yet, MNC trading houses still needed to be present in the country because of the strategic importance of the Ugandan crop in the global market. Also, because they could cross-subsidize losses in Uganda by gains elsewhere, MNCs were able to increase their export market share in Uganda, reaching almost a 50 per cent share in 1998/99 (see Table 2). Interestingly, the same MNCs that favoured coffee market deregulation in Uganda are now lobbying the coffee regulatory body to raise entry barriers to alleviate price competition. First, they gained from coffee market reforms; now, they are asking for a higher degree of regulation to their advantage.

The effects of liberalization on coffee quality and reputation in Uganda have been less straightforward than in Kenya and Tanzania. In the first few years after liberalization, Ugandan coffee quality deteriorated as exporters tried to vertically integrate and establish market share domestically by ‘rushing to buy’. However, quality control in the Robusta trade is less important than in the Mild Arabica trade. Therefore, Uganda’s reputation in the global coffee market did not particularly suffer. The special characteristic of Ugandan Robusta lays in the fact that it is grown at higher altitudes than most other Robustas. Therefore, the most important quality trait is embedded in the product and is less easy to spoil than in the case of Mild Arabicas. Furthermore, as margins shrunk and some consolidation took place in the export market in the late 1990s, MNCs started to focus on ‘core competencies’ (bulk buying in a few locations, export processing, export logistics). They also started to install quality-related pricing for large purchases. This led to recent improvements in the quality profile for Ugandan coffee (see Table 5).

In the two countries with liberalized domestic trade (Tanzania and Uganda), MNCs followed a classic cycle of integration/out-sourcing. When margins were high, they sought vertical integration from export to farm-gate buying; when margins were low, they out-sourced functions to local actors and focused on ‘core competencies’. The liberalization process itself also contributed to the rush towards vertical integration. MNCs vertically integrated to better understand the workings and logistics of the previously monopolized market and competed furiously to establish market share. In Tanzania, they did so by extending geographical cover and fine-tuning their logistical operations; in Uganda, also through price competition. In the latter country, price competition was facilitated by low entry barriers and the strategic importance of the crop for international traders.

The East African case studies also suggest that market power of MNCs at the export level is positively correlated to the level of entry barriers. The total market share of MNC exporters is highest in Tanzania, where establishing export market share means controlling the domestic market. In Tanzania, formal entry barriers at the export level are not demanding; however, entering the domestic trade is more difficult due to complex licensing procedures and high fees. The proportion of exports controlled by MNCs is lowest in Kenya, where an exporter just needs to have a price-competitive order from an importer, access to finance, and to participate to the auction. In Uganda, low entry barriers in the domestic trade mean that MNCs find it difficult to control primary buying. Therefore, they have to compete on producer price. Entry barriers are not quite as high as in Tanzania, but are higher than in Kenya. As a result, the share of exports controlled by MNCs in Uganda stands in between the other two countries. Finally, and not unexpectedly, the share of MNC exports generally increases over time in liberalized markets (Tanzania and Uganda), but not in more regulated ones (Kenya).

5. Conclusion

The global coffee chain has changed dramatically in the last two decades. The international trade and roasting segments of the chain have become increasingly concentrated. Supplier-managed inventory and more flexibility in developing blending formulas have made roasters less vulnerable to shortages of particular types of coffee. New techniques have allowed roasters to more easily substitute some types of coffee with others. International traders have become more involved in direct procurement in producer countries. In general, the bargaining power of consumer country-based operators has increased over producer country actors, especially farmers and their governments.

Yet, the impact of these changes has been – to some extent – mediated by national-level policy. MNCs involved in the coffee chain adapted their behaviour to local market conditions and the limitations imposed (although sometimes only formally) by remaining regulatory systems. Although liberalization of domestic coffee markets has taken place in most producing countries, its dynamics have not been uniform. There has been no single liberalization/deregulation path. Different degrees and trajectories of reform (or lack thereof) have had different consequences. At the same time, it has become clearer that preserving quality and reputation is more difficult, if not impossible, in deregulated markets. It is also more difficult where voluntary coordination is hampered by the large number of actors involved in an industry and/or by the absence of institutional support that facilitates discussion and exchange of information.

Quality preservation may not be an important feature in origins where volume rather than quality represents the 'insertion point' in a global commodity chain, or where quality deterioration is less vulnerable to changes in marketing systems. Uganda, for example, has been often used as the 'textbook' success story of commodity market liberalization, having witnessed improved market efficiency, increased price competition and higher producer/world price ratios. However, experiences from monopolistic markets (Kenya for coffee, some Francophone West African countries for cotton) or from markets that are characterized by highly regulated systems that favour private coordination among a few large-scale actors (Ghana for cocoa, Zimbabwe for cotton) also suggest that there are good arguments against liberalization in specific circumstances, especially where high quality is the main 'insertion point' of an origin in a global commodity chain.

The case studies illustrated in this paper suggest that market liberalization may be the best option for some countries, and that highly regulated markets may be the best for others – even within the framework of the same commodity. However, at the more global level and in the long term, a focus on quantity rather than quality is counter-productive for developing countries as a whole in view of the ever-worsening terms of trade for 'traditional' commodity exports. New openings provided by increased differentiation of consumption in industrialized economies and the emergence of 'niche' markets for high quality products can be best exploited through product differentiation and the improvement of quality standards and reputation in producing countries. This is unlikely to be achieved in liberalized markets and where regulatory and institutional settings do not facilitate voluntary coordination in the realm of quality control.

References

Akiyama, T. 2001. 'Coffee Market Liberalization since 1990'. In *Commodity Market Reforms: Lessons of Two Decades*, eds. T. Akiyama, J. Baffes, D.F. Larson, and P. Varangis, 83-120. Washington, DC: World Bank.

Akiyama, T. and P. Varangis. 1990. 'The Impact of the International Coffee Agreement on Producing Countries'. *World Bank Economic Review* 4 (2): 157-73.

Bates, R.H. 1997. *Open-Economy Politics: The Political Economy of the World Coffee Trade*. Princeton: Princeton University Press.

Brown, J.G. 1991. 'Agro-Industry Profiles: Coffee'. *EDI Working Papers*. Washington, DC: World Bank.

Calvin, L. and V. Barrios. 2000. 'Marketing Winter Vegetables from Mexico'. Paper presented at the IDS/Rockefeller Foundation Meeting on Global Value Chains. Bellagio, Italy, September 25 – October 2, 2000.

Daviron, B. 1993. *Conflict et Cooperation sur le Marché International du Café: Une Analyse de Longue Periode.* Thèse de Doctorat. Montpellier: Ecole Nationale Supérieure Agronomique de Montpellier.

Daviron, B. 1996. 'The Rise and Fall of Governmental Power on the International Coffee Market'. In *Economics of Agricultural Policies in Developing Countries,* eds. M. Benoit-Cattin, M. Griffon and P. Guillaumont, 81-100. Paris: Editions de la Revue Française d'Economie.

Dolan C., J. Humphrey and C. Harris-Pascal. 1999. 'Horticulture Commodity Chains: The Impact of the UK Market on the African Fresh Vegetable Industry'. Mimeo, Institute of Development Studies: University of Sussex.

Fitter, R. and R. Kaplinsky. 2001. 'Who Gains from Product Rents as the Coffee Market Becomes more Differentiated? A Value Chain Analysis. *IDS Bulletin* 32(3).

Fold, N. 1999. 'A Question of Good Taste? Quality and the Social Construction of Standards for Chocolate Products in the EU'. Paper presented at the workshop 'Markets, Rights and Equity: Rethinking Food and Agricultural Standards in a Shrinking World'. East Lansing, Michigan, 31 October – 3 November 1999.

Fold, N. 2001. 'Restructuring of the European Chocolate Industry and Its Impact on Cocoa Production in West Africa. *Journal of Economic Geography* (forthcoming).

Gereffi G., M. Korzeniewicz, and R. Korzeniewicz. 1994. 'Introduction: Global Commodity Chains'. In *Commodity Chains and Global Capitalism,* eds. G. Gereffi and M. Korzeniewicz, 1-14. Westport: Greenwood Press.

Gereffi, G. 1994. 'The Organization of Buyer-Driven Global Commodity Chains: How US Retailers Shape Overseas Production Networks'. In *Commodity Chains and Global Capitalism,* eds. G. Gereffi and M. Korzeniewicz, 96-122. Westport: Greenwood Press.

Gereffi, G. 1995. 'Global Production Systems and Third World Development'. In *Global Change, Regional Response: The New International Context of Development*, ed. B. Stallings. Cambridge: Cambridge University Press

Gibbon, P. 1999. 'Free Competition without Sustainable Development? Tanzanian Cotton Sector Liberalization 1994/95 – 1997/98'. *Journal of Development Studies* 36 (1): 128-50.

Gibbon, P. 2001a. 'Upgrading Primary Production: A Global Commodity Chain Approach'. *World Development* 29 (2): 345-63.

Gibbon, P. 2001a. Cooperative Cotton Marketing, Liberalization and 'Civil Society' in Tanzania.' *Journal of Agrarian Change* 1(3): 389-439.

Gilbert, C.L. 1996. 'International Commodity Agreements: An Obituary'. *World Development* 24 (1): 1-19.

Hopkins, T.K. and I. Wallerstein. 1986. 'Commodity Chains in the World Economy Prior to 1800'. *Review* 10 (1): 157-70.

Larsen, M.N. 2001. 'Zimbabwean Cotton Sector Liberalisation: A Case of Successful Private Coordination?' *CDR Working Papers* 01.1. Copenhagen: Centre for Development Research.

McClumpha, A.D. 1988. 'The Trading of Green Coffee'. In *Coffee (Volume 6): Commercial and Technico-Legal Aspects,* eds. R.J. Clarke and R. Macrae, 1-27. London and New York: Elsevier Applied Science.

Palm, F.C. and B. Vogelvang. 1991. 'The Effectiveness of the World Coffee Agreement: A Simulation Study Using a Quarterly Model of the World Coffee Market'. In *International Commodity Market Models*, eds. O. Guvenen, W.C. Labys and J.B. Lesourd. London: Chapman and Hall.

Pelupessy, W. 1999. 'Coffee in Cote d'Ivoire and Costarica: National and Global Aspects of Competitiveness'. In *Agricultural Marketing in Tropical Africa: Contributions from the Netherlands.* Leiden, African Studies Centre Research Series 15/1999. Ashgate: Aldershot.

Ponte, S. 2001a. *Farmers and Markets in Tanzania: How Policy Reforms Affect Rural Livelihoods in Africa*. London: James Currey (forthcoming).

Ponte, S. 2001b. 'The "Latte Revolution"? Winners and Losers in the Restructuring of Global Coffee Commodity Chain'. *CDR Working Paper* No. 01.3. Copenhagen: Centre for Development Research.

Ponte, S. 2001c. 'Policy Reforms, Market Failures and Input Use in African Smallholder Agriculture'. *European Journal of Development Research* 13(1): 1-29.

Ponte, S. 2001d 'Coffee Markets in East Africa: Local Responses to Global Challenges or Global Responses to Local Challenges?', *CDR Working Paper* No. 01.? Copenhagen: Centre for Development Research.

Raikes, P. and P. Gibbon. 2000. '"Globalisation" and African Export Crop Agriculture'. *Journal of Peasant Studies* 27 (2): 50-93

Raikes, P., M. F. Jensen and S. Ponte. 2000. 'Global Commodity Chain Analysis and the French *Filière* Approach: Comparison and Critique'. *Economy and Society* 29 (3): 390-417.

Raynolds, L.T. 1994. 'Institutionalizing Flexibility: A Comparative Analysis of Fordist and Post-Fordist Models of Third World Agro-Export Production'. In *Commodity Chains and Global Capitalism,* eds. G. Gereffi and M. Korzeniewicz, 143-61. Westport: Greenwood Press.

Shepherd, A.W. and S. Farolfi. 1999. 'Export Crop Liberalization in Africa: A Review'. *FAO Agricultural Services Bulletin*, No.135. Rome: FAO.

Talbot, J.M. 1997a. 'Where Does Your Coffee Dollar Go? The Division of Income and Surplus along the Coffee Commodity Chain'. *Studies in Comparative International Development* 32 (1): 56-91.

Talbot, J.M. 1997b. 'The Struggle for Control of a Commodity Chain: Instant Coffee from Latin America'. *Latin American Research Review* 32 (2) 117-35.

Townsend, R.F. 1999. *Agricultural Incentives in Sub-Saharan Africa: Policy Challenges*. Washington, DC: World Bank.

van Dijk, J. B., D. H. M. van Doesburg, A.M.A. Heijbroek, M.R.I.A. Wazir and G.S.M. de Wolff. 1998. *The World Coffee Market*. Utrecht: Rabobank International.

TABLES

Table 1: Exports by major ICO exporting members to all destinations (March 2000 – February 2001), 60-kilo bags

TOTAL	**88,607,673**
Colombian Milds	**11,539,133**
Colombia	9,499,242
Kenya	***1,214,199***
Tanzania	***825,692***
Other Milds	**28,059,771**
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
Brazilian Naturals	**19,999,823**
Brazil	18,154,618
Ethiopia	1,834,205
Robustas	**29,008,946**
Vietnam	11,958,220
Côte d'Ivoire	5,793,381
Indonesia	5,248,067
Uganda	***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

Table 2: Market share of coffee exports by type of company (1999/2000 in Kenya and Tanzania; 1998/99 in Uganda)

	Kenya	Tanzania	Uganda
Total number of companies (n)*	51	22	40
Market share of top 5 companies (%)	44.1	63.7	53.0
of which MNCs	*17.9*	*48.7*	38.4
of which local	*26.2*	*15.1*	14.7
Market share of top 10 companies (%)	75.2	84.7	77.1
of which MNCs	*24.3*	*52.3*	46.7
of which local	*50.9*	*32.3*	30.4
Market share of companies ranked 11th to 20th (%)	19.4	15.2	19.7
Market share of other companies (%)	5.5	0.2	3.3
MNC share of total exports (%)	28.4	55.5	46.7

Note: * sister companies are counted as one company; number of registered companies in Kenya and Uganda; number of active companies in Tanzania.
Source: elaboration from CBK, TCB and UCDA data

Table 3: Kenya: quality performance by class and sector for Mild Arabica coffee (1990/91–1996/97)

Sector	**Class**	*1990/91*	*1991/92*	*1992/93*	*1993/94*	*1994/95*	*1995/96*	*1996/97*
Cooperative	1 to 3	16.5	15.6	17.8	18.9	20.5	25.3	23.3
	4 to 6	58.1	53.8	57.3	56.3	47.8	54.5	48.2
	7 to 10	7.6	12.4	8.3	10.7	3.7	6.1	7.9
	mbuni	17.7	18.3	16.7	14.1	28.0	17.2	18.6
Estate	1 to 3	3.5	4.3	5.0	1.4	7.3	4.0	5.2
	4 to 6	80.5	74.5	78.2	77.7	68.0	78.0	75.5
	7 to 10	8.5	14.5	10.2	12.9	5.7	9.7	9.5
	mbuni	7.5	6.7	6.7	8.0	19.0	8.3	9.9
Total	1 to 3	11.1	10.8	12.1	10.1	13.9	16.5	16.5
	4 to 6	67.1	62.2	66.2	67.0	57.9	62.4	60.2
	7 to 10	8.2	13.6	9.5	11.8	4.7	7.6	8.6
	mbuni	13.6	13.4	12.3	11.0	23.5	13.5	14.7

Source: CBK

Table 4: Tanzania: quality performance by class for Mild Arabica coffee (1968/69 - 1999/00)

	Classes 1-5	Classes 6-10	Classes 11-13	Classes 14-17
1968/69	16.0	74.9	6.4	2.7
1969/70	16.0	74.4	5.7	4.2
1970/71	15.0	70.2	9.0	5.8
1971/72	7.1	79.5	10.1	3.2
1972/73	11.2	72.6	12.4	3.9
1979/80	3.2	73.9	17.0	5.9
1980/81	1.2	64.4	25.9	8.5
1981/82	1.7	76.9	16.6	4.8
1982/83	1.8	75.8	17.5	5.9
1983/84	1.7	75.1	18.1	5.1
1984/85	1.0	72.4	21.9	4.7
1985/86	2.2	74.6	19.5	3.7
1986/87	1.7	67.8	28.6	2.0
1987/88	1.9	58.5	32.7	6.9
1988/89	2.5	73.7	19.0	4.8
1989/90	2.5	73.2	18.9	5.4
1990/91	4.6	72.9	16.1	6.4
1991/92	0.8	80.4	11.1	7.4
1992/93	1.5	76.5	18.1	3.9
1993/94	2.0	77.0	18.0	3.0
1994/95	2.5	79.0	15.0	3.5
1995/96	3.0	79.1	16.6	2.5
1996/97	n.a.	n.a.	n.a.	n.a.
1997/98	0.6	59.5	29.9	10.0
1998/99	0.7	60.3	34.9	4.0
1999/00	1.2	67.3	25.9	5.6

	Classes 1-5	Classes 6-10	Classes 11-13	Classes 14-17
average 1968/69-72/73	13.1	74.3	8.7	4.0
average 1979/80-93/94	2.1	73.3	19.6	5.1
average 1988/89-93/94	2.3	75.6	16.9	5.2
average 1994/95-99/00	1.6	69.0	24.5	5.1

Sources: TCB and MDB

Table 5: Uganda: quality performance by proportion of ‘clean cup’ for Robusta coffee (1992/93 - 1998/99)

	1992/93	1993/94	1995/96	1996/97	1997/98	1998/99
Proportion of clean cups (% of tests)	*66*	*79*	*91.2*	*93.5*	*92.6*	*89.2*

Source: UCDA

FIGURES

Figure 1: Kenya, Tanzania and Uganda: coffee exports (1990/91 - 1999/00); thousands of 60-Kg bags

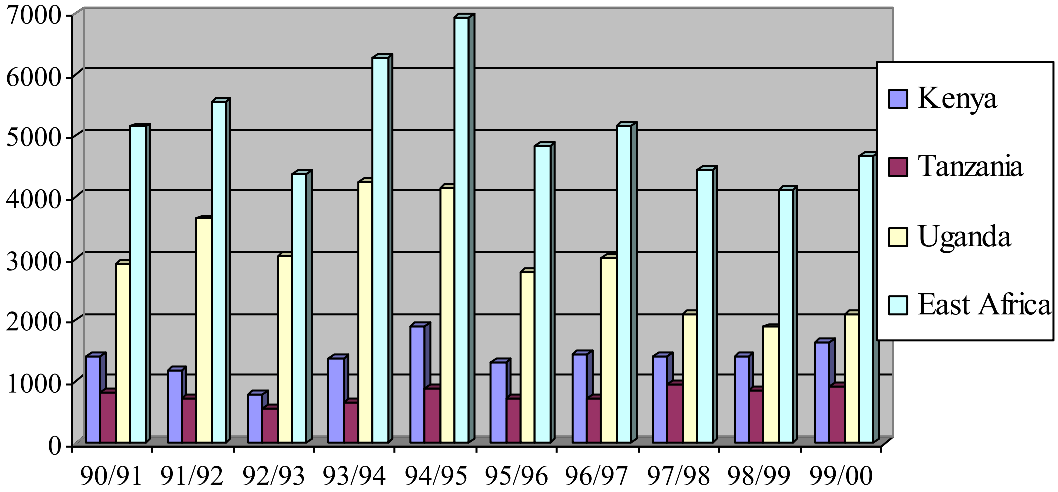

Figure 2: Kenya, Tanzania and Uganda: pre-liberalization coffee marketing chain

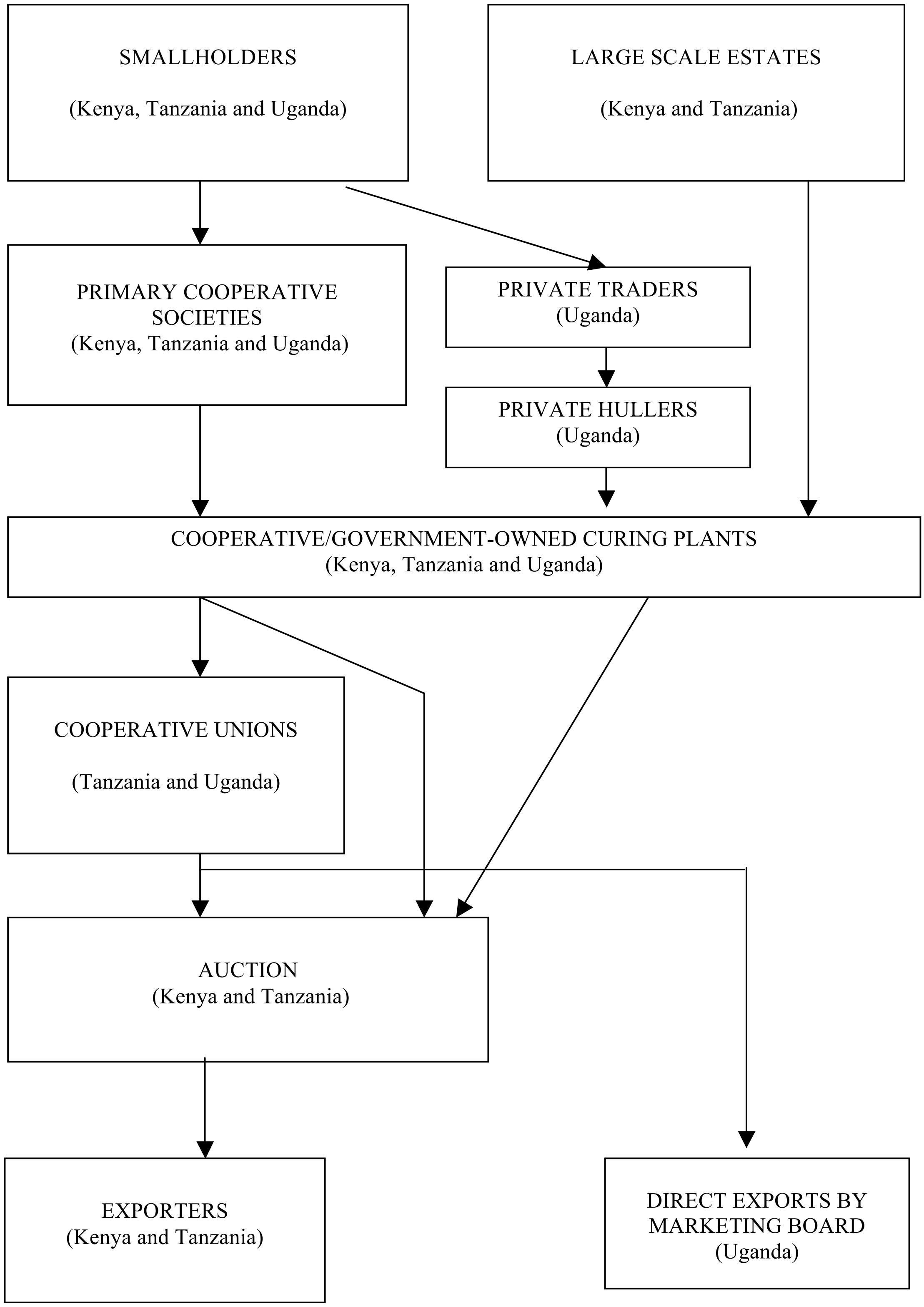

Figure 3: Kenya: current coffee marketing chain

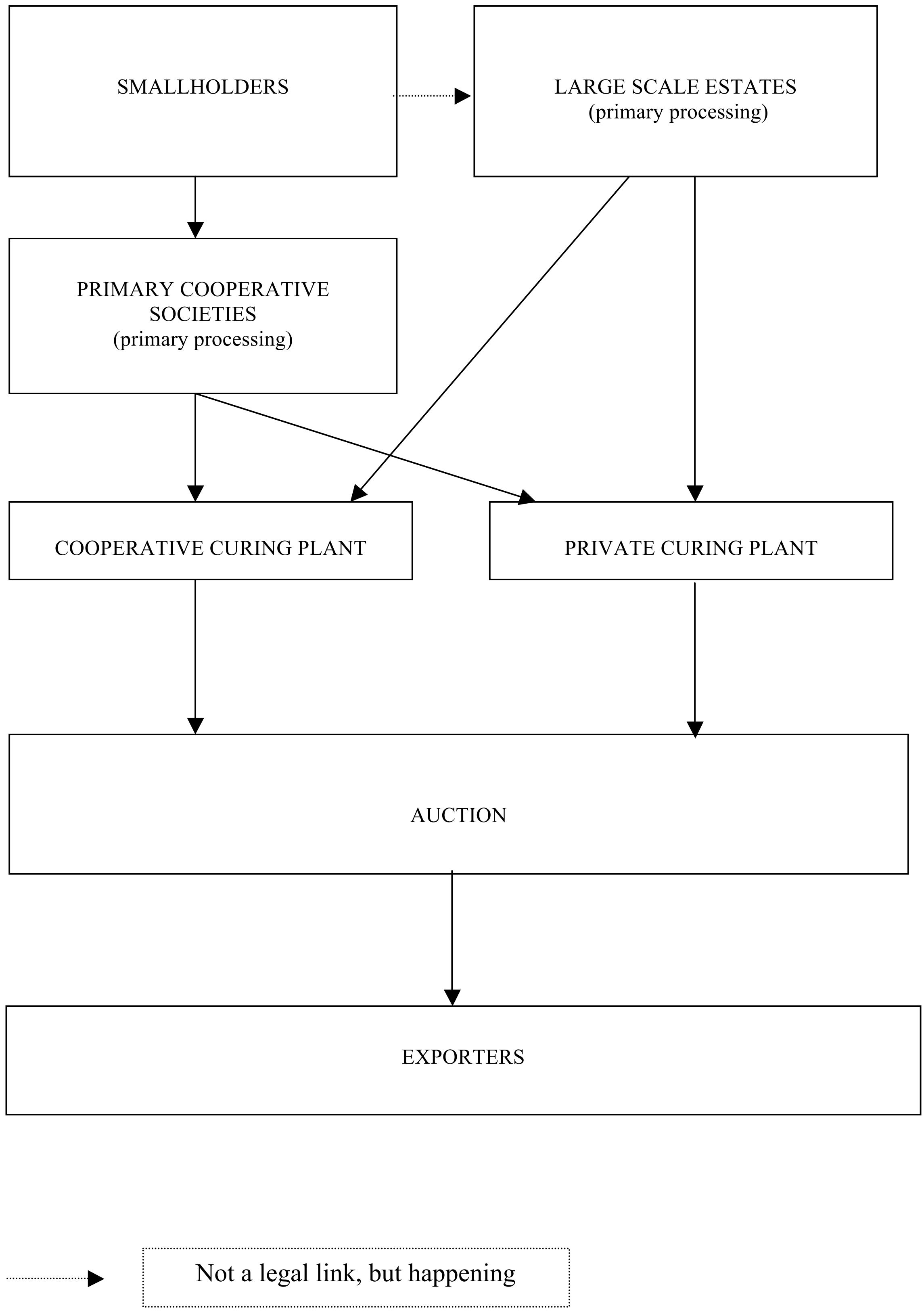

Figure 4: Tanzania: current coffee marketing chain

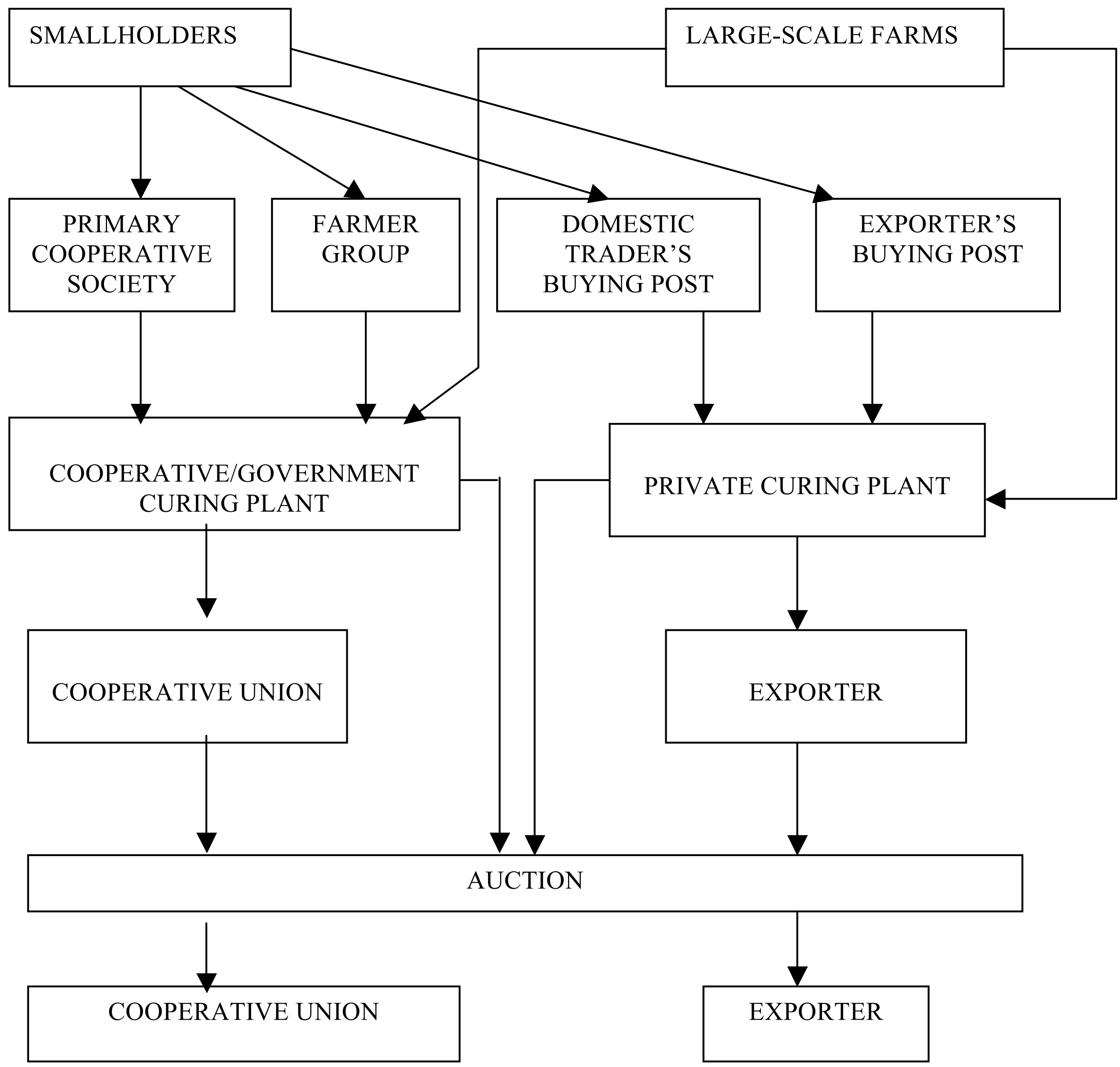

Figure 5: Uganda: current coffee marketing chain