Coffee Is Successful; Or Is It?

The International Coffee Agreement, negotiated in 1962, has clearly succeeded in maintaining export earnings of coffee producers above equilibrium levels by a system of export quotas. As might be expected, its very success threatens the stability of the agreement. By providing high and stable prices for coffee, it tempts producers to evade export controls. It therefore places a great burden of self-restraint on the major producers, Brazil and Colombia, who face erosion of their market shares at the hands of Central American and African producers. These smaller producers are unwilling to establish close control over exports and production. Even though importing members are theoretically unable to take extra-quota imports from exporting members, there seems to be a good deal of evasion in the form of transshipments through nonmember countries or so-called "new markets" not subject to the quota provisions.

In terms of many of the criteria discussed—demand elasticity, substitution, widespread benefits—coffee is an appropriate product for price-fixing arrangements. But the willingness and ability of the smaller producers to control supply still remains an open question, and it may be doubted that Brazil will consent to continual reduction of her share of the world coffee market by what are in effect extra-legal methods of quota evasion on the part of small producers. Recent modifications of the Coffee Agreement are designed in part to solve this problem.

Changing the Rules

The agreement is administered by a Coffee Council, composed of representatives of importing and exporting countries. The council regularly receives pleas for export increases from members who are unable or unwilling to control production and exports. The agreement assigns fixed percentages of the export market to each exporter so that selective quota changes are theoretically forbidden. In practice, however, when the alternative is collapse of the agreement, the council has devised ways of changing the rules. The most recent set of rule changes, adopted in September, 1966, is worth reviewing in detail as the first consistent effort to deal with the obstacles to price-fixing objectives and economic development goals.

First, the council explicitly recognized that the world coffee market is composed of submarkets for the four main types of coffee: Brazilian arabica, Colombian and Central American arabica, and African robusta. In the future, export quotas will vary by coffee type. This will presumably allow the major robusta producers (Ivory Coast, Cameroons, Angola) to increase their exports faster than other growers, reflecting the steady growth of demand for the lower-priced robusta in instant coffee preparations. It also offers an additional advantage: robusta producers generally complain that their quotas are too small under the existing agreement, and these producers are also often the least able to control production and exports.

A second element of the revised agreement combines temporary quota increases of varying percentages (zero for Brazil and Colombia and up to 10% for some African producers) with use of the proceeds to promote production control. Each country receiving a quota increase agrees to put into a special fund either 20% of the increased sales proceeds, or an amount of coffee equal to the amount of the quota increase. Each country will use the fund, under rules established by the Coffee Council, to promote agricultural diversification. This provision is presumably aimed both at promoting the economic development of the exporting countries and at meeting the objections of Brazil and Colombia to the perpetual growth of uncontrolled supply in other countries.

The third element proposed in 1966 (but not yet adopted) was a tax of one dollar on each bag of coffee exported under the agreement, to be paid by the exporting country. This would produce a revenue of about $45 million during the current marketing year. The proceeds would be used to finance programs of agricultural diversification, under control of the Coffee Council.

Finally, the council took steps to limit evasion of export quotas. Importing members agreed to limit their imports from nonmembers. Beginning in 1967, exporting members cannot ship coffee unless the export documents bear a stamp obtained from the Coffee Council. These devices can also be viewed as efforts to satisfy Brazilian demands for more effective control over world supply.