Prices and Power in the Coffee Trade and East Africa

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Introduction

According to statistics from the World Bank, one of every five people in the world still lives on less than $1 a day, making the average income for a person living in the 24 richest countries in the world over 60 times greater than the income of an average person in a developing country[1]. To correct this problem, many look to trade and economic development. The north-south debate is one that enters every political and economic arena as well as many lecture halls. It is a relationship that was exasperated in the colonial era and continues to divide the world in today's global economy. Yet, what has created this gap? Largely the disparity is manifested between the countries that produce primary goods versus the countries that produce finished goods.

Primary goods, also known as commodities are the inputs for finished goods, like rubber. These goods often take large amounts of low-skill labor. Finished goods are goods that require manufacturing, such as tires. They usually require skilled labor and large amounts of capital. For years there has been this elusive promise of economic development for the global south through the export of primary goods. Developing nations have responded to this by expanding and improving their production of commodities. They have looked to export dividends as a means for higher standards of living. However rather than furthering development, some say this plan of commodity expansion has weakened the southern half of the world. As evident in the coffee trade, this debate is largely about prices, and who is finding the profits buried in the beans.

The World Bank, IMF, and other international bodies have routinely encouraged developing nations to stimulate growth in their economies, through development of

[1] Pg. 72 "The U.S. and Global Poverty"

industries that have a comparative advantage and expansion of exports. One World Bank study concluded that, "the economic performance of the outward-oriented economies has been broadly superior to that of inward-looking economies in almost all respects."[2] While expansion of exports does stimulate growth, and emphasis on comparative advantage goods is efficient, it might be detrimental in the long run. As stated in an article from Oxfam, "Historically, the lowest-income countries have depended on producing primary commodities, and in many cases the focus on liberalization and comparative advantage has increased that dependence."[3]

This dependence on commodities ends largely in a type of growth that makes a nation's economy worse off. "Food products (and primary products in general) […] have relatively low income elasticities of demand, meaning that an increase in incomes worldwide would decrease the percentage of income spent of food."[4] So as income increases the relative prices of primary commodities decrease causing a deterioration of terms of trade for developing countries overtime. Unfortunately, when it comes to coffee, the World Bank, and other international authorities, have encouraged many developing nations to continue expansion in commodity-based export.[5]

Another problem with expansion in commodity-based export is that people relying on primary goods have limited control of their supply annually. If demand has slowed for a manufactured good, slowing production can be as simple as turning off a machine or cutting down on workers. For agricultural goods, this is not the case. Natural factors

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[2] Pg. 41 Africa in the Global Economy
[3] Pg. 32 Mugged: Poverty in Your Coffee Cup
[4] pg. 88 Africa in the Global Economy
[5] Gaines, Stuart. "The Politics of Coffee" *Mountain Express,* Vol. 10 / Iss. 24 accessed online 8/30/2007

have the greatest command over supply levels. Once the crop has been planted, the supply is largely inelastic. No matter how low the price goes, the same amount will be produced, for the year or season. Usually it must be sold immediately, or within a few years because of spoilage. Although cultivation methods and the amount of land can be changed, supply is grossly affected by weather conditions and disease. This makes primary goods subject to great price volatility. For example a frost or an unexpected insect presence can limit supply. In especially good years, excess harvests can drive the price down. Most often primary goods are subject to spoilage, so excess supply must be sold or destroyed.

Since WWII coffee has often been the most valuable commodity traded, after oil. Currently this taste accounts for over $80 billion of retail sales worldwide. This has made coffee an appealing commodity. Many developing countries have looked at it strategically, as a chance for growth.[6] It is no surprise that the production of coffee has expanded to over 60 countries. It is now providing a livelihood for over 25 million farmers. [7] It accounts for a large part of several developing countries GDPs, including the East African nations of Kenya, Uganda and Tanzania. While for the global south, coffee is a livelihood, with the exception of Brazil and Ethiopia, it is a commodity that receives very little domestic consumption. In fact a great many of the people growing this plant, have never tasted a cup of coffee[8]. It is a luxury of mass consumption, produced strictly in the poorest parts of the world for consumption strictly by the global north. For this reason coffee is an important commodity to study when looking at north-south economic

[6] Pg. 4 Coffee Markets in East Africa
[7] Starbucks.com
[8] Interview with Peace Coffee representative, 7/13/07

relations. It is also an interesting commodity because its uses are so limited. It has only two, which are for coffee beverages and for the extraction of caffeine. This is unfortunate when compared to other commodities like corn or soy beans which can be used for a wide variety of food products and have other potential like in plastic and fuel. Because of this only an increase in the population of coffee consumers (or caffeine consumers) can increase the demand. So while so many countries depend on coffee for growth, their success is limited by its lack of purpose.

Coffee has been a commodity used for economic development in the global south, yet as various factors continue to drive prices down, it is clear that without a change in the global economic climate, efforts will not pay off. Coffee was once a profitable commodity, thought of as a worthy avenue for economic development in the global south, yet in the last 2 decades the coffee market has been transformed by new trade laws, changing demand and excess supply. While developing countries once had some control in the market, since the late 1980's continuously more value and power has been obtained by consuming nations. This paper is a study of coffee and how power has shifted between producers and consumers and the impact this has had on prices and poverty. It will start with a history of the trade, how it was first regulated and how the trade developed through the International Coffee Agreement. Then it will discuss how the current coffee market has been transformed and what that means for developing nations as far as value and power. Finally it will assess solutions to issues faced by the industry and how effectively international groups have been in implementation.

History of the Trade

Coffee as beverage began in Ethiopia in the 11th century. It is believed to have first made its way to European and Asian markets through the slave trade in the following centuries. At this time coffee was for the upper cusps of society. It was an expensive, exotic beverage. Present-day consumption has been transformed by big name chains like Starbucks and Caribou. The U.S. is the number one importer, but consumption per capita is greatest in Scandinavian nations. Although it has been brought to the mainstream, it is still a symbol of class in the global economy.

A commodity that is important to so many people on both ends, commands a great deal of international attention. So it is no surprise that coffee was one of the first commodities to be regulated in the international market. This began through quality control. The United States was the first nation to regulate quality of coffee in imports. This system emerged after the creation of the New York Coffee Exchange in 1889, which dealt in future markets. U.S. importers had a quality grading system based on the bean shape, consistency, and flavor that existed on a 9-point scale. Previously quality was decided merely by the reputation of region. However as the U.S. was quickly becoming the number one importer of coffee, many producing nations were eager to comply. Brazil adopted this system in 1909 and competitors followed suit. By the early 20th century the system of coffee grades and coffee typing became an international standard. Although the international standard was adopted in accordance with the U.S., at the time consuming nations were not the ones making all the decisions.

For much of the 20th century until 1989, producing countries called the shots in the global value chain. They were able to influence international prices, hold stock and

have real market power[9]. From 1906 to the 1930's this power was largely contained by a Brazilian monopoly. In the early 20th century Brazil accounted for three-quarters of global production. Brazil's top ten merchant firms controlled over 70 per cent of exports. These firms largely determined international coffee prices due to their capacity to stockpile. With this in mind, the Brazilian government began a policy of valorization in 1906, in order to command control of prices. They created export quotas corresponding to the difference between global imports and the quantity supplied by competitors. This shielded the rest of the supplying nations from dramatic price volatility. By the 1930's, Brazil had to establish a program to get rid of stockpiles. According to Ponte, "Within ten years, the equivalent of two years worth of world consumption was then burnt or dumped into the sea"[10]. It resulted in a shrinking market share for Brazil. Although it came at a great price for Brazil, this system proved capable of regulating international prices in favor of producers, paving the way later for the International Coffee Agreement. This system gave producing nations high prices and control.

The post WWII era was a period of global market fragmentation. War-torn European nations renewed pursuit of imperial autarky and so began to encourage expansion of coffee production in their colonial nations. France exclusively imported from West Africa, and Britain from Sub-Saharan Africa, leaving the U.S. with control over Latin America. Producing nations benefited from this division[11]. This lightened competition in each region and allowed producing nations to build centralized, state-run institutions and procedures to regulate exports.

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[9] Pg. 83 The Coffee paradox
[10] Pg 85 The Coffee paradox
[11] Pg. 86 The Coffee paradox

These centralized bodies in producing nations strengthened production in a number of ways. The governments created coffee boards that invested in inputs, such as fertilizer, machinery, and coffee seedlings. They also worked to improve planting methods, and made coffee processing and pick-up more organized. Coffee farms worldwide are divided into large estates and smaller individual farms. The majority of farming occurs on smaller farms[12]. So the centralized boards organized and encouraged cooperatives. By joining the cooperatives, smaller farms were able to take advantage of economies of scale. Cooperative members began to process and market their coffee together, usually taking their cherries (picked coffee) to a local processor for a fee, which was more feasible in larger amounts. Yet cooperatives were able to provide a new source of education. They centralized farming communities and allowed for better government outreach. This organization also allowed governments to begin regulation and improvement of quality. The coffee board set up specific standards for quality and set goals for improvement. Centralization and government involvement changed production and improved output.

The new producing nations and centralized systems ushered in an era of over-production in coffee world wide. Latin American countries reacted to this by curtailing exports with the Latin American Agreement. However, this had minimal effect on world supply do to African and Asian production. Finally with prices plummeting, all producing nations came together to establish the International Coffee Agreement. This was signed, not only by producing nations, but also by most of those that were consuming. A target price was set for participants and each supplying nation was

[12] Pg. 6, Mugged: Poverty in your Coffee Cup

assigned an export quota by the International Coffee Organization (ICO). These quotas were adjusted when the price rose or fell. In the mid 1970's Brazil suffered a frost, which killed their coffee crops. Prices briefly sky rocketed and quotas were lifted entirely.

For the most part, the ICO was a successful regime. It was able to stabilize the prices and enforce the quotas. Producing countries were able to maintain quotas. This was largely due to the previous era of centralization. Countries with coffee institutions were more easily able to regulate the amount of coffee processed and sold. However, it took a lot of cooperation from both producing and consuming nations, and sacrifice on both sides. The International Coffee Agreement resulted in a shrinking market share for Brazil. It also led to the much higher prices for consuming countries.

A necessity of the agreement was that trade was mutually exclusive between states that had signed on to it, and this was not always the case. Some producing nations felt their quotas were not large enough, could not control their production, and grew weary of stockpiling. They then began to dump their excess coffee in non-ICO countries, at cheaper prices. This infuriated consuming countries because they felt they were paying high prices for no reason. By the 1980's the economic climate had changed drastically. This and the revival of the free-market idealism through the administrations of Regan and Thatcher made the quota system seem less desirable to some consuming nations. Without the support of the number one importer, the U.S., the ICA was not feasible. So in 1989, when the International Coffee Agreement was up for renewal, negotiations failed, and the International Coffee Agreement was dismantled.

Issues Faced in the Current market

In the years that have followed the collapse of the ICA, power in the coffee market has shifted from the producers to the buyers. The quota system had assured the relatively high prices for producers. It also created incentives for quality control. However, since the fall, the market has changed in a number of ways. There is excessive supply due to new technologies and new producing nations. This surplus in addition to the missing quotas has changed the balance of supply. This is countered by sluggish demand. People are drinking a different beverage than they have for the past hundred years, both in terms of substitutes that have emerged and in changes in how coffee is served to consumers. Furthermore, international companies are playing a larger part in domestic production, vertically integrating the market. This has given more control to consuming nations and made prospects look dim for the global south.

There is excessive supply for several reasons. For starters, while the price was high, it was more lucrative to be planting coffee trees. In areas like East Africa, when governments were nationalized and the coffee industry was so considered lucrative, this investment was done on a large scale by the government. Since coffee trees usually produce for a minimum of 40 years, there is production that was started in the 1970's during temporarily high coffee prices that is still in effect today. Another factor is the entrance of Vietnam into the market. In 1996 the IMF requested that Vietnam begin production. This created a tidal wave of excess coffee[13]. While there have been claims that a small country can continue to supply as much as possible without affecting the

[13] Interview with Peace Coffee Representative, 07/13/07

world price, these claims have not been supported with the coffee market[14]. Vietnam grew next to no coffee at the end of the International Coffee Agreement. Now they are the second biggest exporter[15]. Brazil, which once had accepted a shrinking market share in the quota system, has now expanded production into more rural areas, increasing their supply. Other countries such as Nicaragua and Columbia are working to improve their cultivation methods, which has boosted their yields.

The type of coffee that Vietnam and Brazil are producing is also a cheaper variety. There are two types of coffee plants, which produce beans for consumption, Coffea Canephora and Coffea Arabica. Canephora produces Robusta coffee, which is a more bitter variety, containing high levels of caffeine. Robusta coffee is generally used for decaffeinated and instant coffee. Caffeine abstracted from this variety is then used for other products such as cola. Coffea Arabica produces Columbian, Milds, and Unwashed Arabica coffee. Arabica is considered premium coffee. Buyers prefer Arabica for its superior taste. It is, however, more difficult to cultivate, requiring cooler climates and higher altitudes. Vietnam is now the second largest exporter, and solely able to produce Robusta. This has especially flooded the low quality coffee market.

Both the Arabica and Robusta coffees have evolved from many different cultivars, which are grown in separate parts of the world. In the past this has allowed different regions to brand their product. However, the grades of coffee and varieties are becoming increasingly less important due to innovations in blending by the big roasting companies. Formerly, coffee roasters worked to make blends with special coffees in order to make unique flavors. These blends had an identity, which included specific

[14] Pg. 31 World Demand for Coffee
[15] Pg. 18 Mugged: Poverty in Your Coffee Cup

areas where the beans were grown and processed. They required high quality coffee. So even when there were times of high supply, countries that had especially unique beans could depend on their goods still being demanded. Now there are new methods of blending that through processing can make the same flavor with lesser quality beans. This means that importers have fewer ties with specific regions and instead are allowed to buy from the cheapest. It also means that for producing countries there is decreasing incentive to produce quality products because they will not be rewarded in terms of price.

Overall, what consumers want is changing as well. In the last two decades the market of the largest coffee importer, the U.S., has been transformed. American consumers in general have shifted their demand toward substitutes for coffee. While in 1970, the average consumer in the U.S. drank 36 gallons of coffee per year; he now drinks just 17 gallons. This has been followed by a surge in demand for soft drinks. The soda industry now sells more than double the amount of soft drinks to the average consumer than it did in 1970.[16] Because the U.S. is the number one importer of coffee, this shrinking demand per capita has an effect on world demand.

For much of the ICA era, the U.S. was a huge consumer of instant coffee. In the late 1980's, the American consumer began to catch on to coffee house concept, something that had been a hit for a century in places like Austria and Sweden. This became even more widespread through the Seattle-based company, Starbucks. The success of Starbucks can be attributed to several facts that have little to do with coffee. Their coffee shops sell consistency, like most big chains. Consumers are buying into the atmosphere, a place to study or hang out, while still getting a caffeine fix. They market

[16] Pg. 19 Mugged: Poverty in Your Coffee Cup

their service, and most of all their specialty drinks. The popularity of specialty latte beverages has changed how the brewers view coffee. The coffee is no longer the main part of the beverage, but almost just a flavoring for other additives. So the quality of the bean is secondary to everything else. This means that although a brewing company like Starbucks is selling a coffee beverage for several dollars, a shrinking margin of that cost is going to the input of coffee.

Growth in supply has not been met by the same increase in demand. According to a study done by Oxfam, there is an annual growth in supply of 2% in the world. This easily out-strips the 1-1.5% growth in demand. [17] One study on world demand found that "It was registered that United States imports of Coffee have been declining. Where as imports to non-traditional consumers like Japan have been on an increase." [18] Analysts also say there is potential for expansion of the market in Eastern Europe, which has largely been untapped thus far. This will become a crucial point for marketing because there are not many sources of demand otherwise. Coffee is not a versatile commodity. It has only two uses, which are for coffee beverages and for the extraction of caffeine. So unless there is an increase in the amount of coffee drinkers in the world via markets like Eastern Europe, or innovation, the coffee industry will continue to experience this sluggish demand.

East Africa and Coffee

The loss of emphasis on quality and the oversupply in the market has taken its toll on many producing nations. The East African nations of Kenya, Tanzania and Uganda

[17] Pg. 19 Mugged: Poverty in Your Coffee Cup
[18] Pg. 32 World Demand for Coffee

have depended on coffee for the majority of their export revenue for the last 50 years. [19] They were encouraged by European nations to begin producing coffee in the 1940's because of the increase in demand at that time, and the chance for growth in what was thought a lucrative trade. Although their market share has been around only 6% (FAO data)[20], this region has had unique coffee that has been highly demanded around the world. Kenya has produced some of the best Arabica coffee. It has been in demand as a single-origin coffee, but because of its high quality and flavor small amounts of Kenyan coffee find their way into most blends.[21] Uganda is known to have the best Robusta coffee in the world. Although Tanzanian coffee does not have as good of a reputation, they produce similar types of coffee and they have been known for their overall homogeny in quality[22].

Much of the quality and taste of the coffee is determined in the processing of the cherry, the fruit of the plant. There are two basic ways of processing. The wet process produces the best quality of coffee but is time-consuming and requires heavy machinery. It starts with the de-pulping of the cherry by machine, which removes outer layers of the cherry but leaves a thin skin, which is called the parchment. The cherries are then placed in a tank for days until the parchment ferments and degrades. In the final step the cherries are washed and dried. The remaining coffee is one sixth of its original size and ready to be sold to coffee roasters. The wet process yields a much better coffee, and traditionally has commanded a higher price. So the other process, called the dry process, tends to be used for lesser quality coffees, such as Robusta. For this process the cherries

[19] Pg. 4 Coffee Markets in East Africa
[20] Pg. 11 Coffee Markets in East Africa
[21] Pg. 13 Coffee Markets in East Africa
[22] Pg. 14 Coffee Markets in East Africa

are harvested late and dried out on the bush. They are then left in the sun for three or four weeks or put in a dryer for a few days. After the drying is finished the pulp is still attached to the bean, giving the coffee a bitter flavor.

In Kenya and Tanzania before liberalization, the processing and the trade of coffee at all different processing levels, was done by the cooperative societies or the marketing board. The coffee did not change hands until it was sold at the auction, so farmers owned it until it was exported. This meant that the farmers bore the price fluctuation risk, but it also gave them more control over their product. In Uganda private hullers and buyers competed with the cooperative societies for the cherry from the farmers. Both sectors worked under fixed producer prices and margins. All coffee after processing was sold to the Coffee Marketing Board, which then took care of export.

At this time, for Arabica coffee, which was grown in Kenya and Tanzania, farmers received payment based on quality. Coffee samples were taken and graded based on the moisture content, shape and size of the coffee bean as well as the flavor. This slowed down the export process. It also created high overhead costs. However, higher quality coffee was rewarded with higher prices. Robusta coffee was also graded on quality, less frequently did farmers receive higher prices for higher quality.

The nationalized systems of this region had many faults. They were largely inefficient due to poor infrastructure and low levels of capital. For the most part, farms depended on government-supplied trucks for pick-up. However due to frequent instability within the countries, trucks were mobilized for the war efforts. This was not helped by poor infrastructure. There were poor roads and very few railways. Although there was a railway system left over from colonization in Uganda and Kenya, there was

none to speak of in Tanzania. This resulted in very slow movement of crops. Farmers would sometimes wait months for their crops to be picked up to be processed or sold, and would end up watching their crops rot. These inefficiencies as well as corruption led to a great deal of smuggling, and general domestic resentment of the nationalized system[23].

Liberalization in East Africa began as the ICA came to a close. These three nations are still at very different levels in the process. Liberalization has changed their production in very different ways. Kenya, for the most part is not liberalized, except for processing, which is contracted by private hullers. However, Kenya did make a key change in their licensing policies. Until the late 1980's non-Kenyans were barred from holding shares in export companies. International investors were also prevented from owning licenses to run farms[24]. This prevented any sort of vertical integration by international corporations. However the low prices of the 1990's forced many small farms into bankruptcy. After the loosening of licensing restrictions, international corporations were allowed to finance, and largely buy out many Kenyan coffee farms. While Kenya still maintains auction system for their exports, now most coffee is merely sold back to the same company that brought it to the auction.

Tanzania began the liberalization process in the 1990's, but has retained regulatory powers through its coffee board. Tanzania still sells their coffee to exporters through an auction system as well, however they have removed quality regulations. This is a problem because Tanzania for the most part is known for their overall decent quality

[23] Pg. 141 Coffee Smuggling in East Africa
[24] Pg. 18 Coffee Markets

of coffee. Uganda swiftly liberalized its entire domestic market in the early 1990s and the regulatory board, although still in action, maintains very little control.[25]

These liberalizations for all three countries have been partly a combined effort, encouraged by the East African Community, an intergovernmental body for trade and development. The East African Community stems from a long history of cooperation, trade and political connection between member states Uganda, Kenya, and Tanzania, which grew throughout the 20th century. The first official agreement was a common customs union between Kenya and Uganda in 1917, with the addition of Tanzania (then Tanganyika) in 1927. Other developments between the three countries that occurred in the following years include the East African High Commission (1948-1961), a primarily political group, and the East African Common Services Organization (1961-1967), which culminated in the formation of the first East African Community in 1967. Although it collapsed in 1977 due to political differences, the development of the first East African Community was an important first step to the East African community of today. After years of slowed economic exchange, complicated by political strife, the East African nations came together once again to form the East African Co-operation in the 1990's. By 1997, the Co-operation agreement was being updated into the multi-faceted, Treaty for Establishment of East African Community[26].

Through this treaty the East African Community highlighted several goals. One such objective was the improvement of transport. Member countries planned to work together to develop a stronger road and mass transportation system. EAC members also

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[25] Pg. 4 Coffee markets in East Africa
[26] East African Community. "From Cooperation to Community" <www.eac.int/history> accessed 26 March 2007.

indicated that communication was a priority, through investment in phone lines, computer systems, ect. Other goals include unification of immigration standards and regulations, and cooperation in anti-terrorism and other security ventures. The treaty established the free exchange of currencies, with plans to ultimately create a single currency through the newly formed Monetary Union. These improvements in infrastructure and otherwise, were intended to promote trade, industry and investment in the region.[27]

The East African community is the type of body that could stimulate much-needed growth in this region, especially when their primary commodity, coffee, is becoming increasingly less dependable. These three nations are likely to lose their market share in the coming years because of changes in the market structure. Kenya has traditionally been demanded because of its high quality. Quality in Kenya is decreasing, and the type of coffee Kenya grows, mild Arabica, is being phased out by roasters, in favor of cheaper alternatives. [24] Tanzania faces this as well, because Tanzanian Arabica has been used as a substitute for this. Tanzania's Robusta sector is being out-priced in the Robusta market by competition from Vietnam. Uganda's Robusta has been known for its high quality. However, new styles of blending have made substitution by cheaper Vietnamese coffee a possibility. Furthermore, because Uganda has been at risk of wilt disease, their coffee supply has been lower. If this keeps up, many importers will find better substitutes rather than risk the supply shock[28].

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[27] East African Community. "From Cooperation to Community" <www.eac.int/history> accessed online 26 March 2007.

[28] Pg. 26 Coffee Markets in East Africa

Although liberalization provided the chance for improvement in quality and efficiency in the region, all three nations have seen a decline. Instead there has been a wave of international companies taking control over aspects of production and trade, which has been met with increased deviance between producer price and consumer price. While East Africa may have unique coffee, their problems are the same as growers worldwide. Ultimately, oversupply and sluggish demand has amounted to coffee prices that are half what they were in the 1980's.[29] Yet there is no doubt that retail coffee is still selling at a high price in consuming nations. The overall trend is that the value of coffee is no longer in the commodity itself but in the way it is prepared and marketed. This is seen through instant coffee companies that are substituting cheaper lower quality coffees for their blends, and companies like Starbucks that put more emphasis on atmosphere and service. According to Harford, "Mark-ups on coffee are around a 150% […] It costs a $1 for a latte that costs around $2.50."[30] The value of coffee is being transferred to international companies, like in Kenya, where non-Kenyan corporations have vertically integrated the market.

Because of liberalization East Africa, the governments of Kenya, Tanzania, and Uganda have let go of their control on the commodity. Although market liberalization in the region will likely make the trade more efficient, this comes at a price of East African growers. During the era of nationalization the centralized bodies in Tanzania, Kenya and Uganda, invested in growth and were able to have quality incentives, and control supply. This control made a quota system like that of the International Coffee Agreement possible. Control of supply is critical in any attempt at raising prices. The new

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[29] Pg. 24 Mugged: Poverty in Your Coffee Cup

[30] Pg. 4 The Undercover Economist

organization through the East African Community has provided a chance for this type of regulation. Quotas could be enforced and new quality procedures implemented. However, before these regulations could be effective in raising prices, an international agreement would be necessary.

Solutions to the Issues in the Trade

Low prices have a huge impact on growers and producing nations. In many cases this has made prices fall so low that they no longer cover production costs for farmers. This has stirred the awareness of activists all over the world, and fomented international involvement. The Fair Trade movement is working to make sure farmers capture more of the value in the sale of the coffee beans. This movement started in the late 1970's in Scandinavian countries. Over the years it has expanded into many countries, several international organizations, like Global Exchange and Fair Trade Federation, and cooperating consumers. Its basis is that farmers and artisans should be given a price for their goods that provides them with a livable wage. Yet to be considered Fair Trade, farms must abide by certain standards for the environment and labor, as well as belong to democratically-run cooperatives[31]. Within the United States several organizations work to certify fair trade commodities based on these environmental and social regulations. The Fair Trade Labeling Organization (FLO) goes to farms and checks to make sure that farmers meet standards as far as the environment and labor go. Then TransFair USA works with both FLO and cooperating businesses to make sure that farmers are being

[31] "Fair Trade Certification Overview" www.tranfairusa.org accessed 8/30/2007

paid fairly. Coffee roasters then pay FLO fees that allow them to advertise their coffee as Fair Trade Certified.

This movement takes a great deal of dedication from growers, NGOs, businesses and consumers. As Gaines states in his article about the politics of coffee, "Underlying the entire fair-trade movement is a simple yet powerful, ethical idea: the willingness to pay more than you have to for something in order to help other human beings whom you'll probably never even see. This runs counter to the capitalist axiom that one should always seek the lowest price possible."[32] Yet companies like Peace Coffee in Minneapolis, demonstrate how a coffee roasting company can be a profitable business while still managing this fair price for growers. They belong to a cooperative of buyers from throughout the U.S. who buy their coffee stores together once a year. Group purchasing allows them to take advantage of economies of scale and get more types of coffee. They buy from eight different countries at the price of $1.41/lb for organic and $1.26/lb for regular coffee, which is around the price of coffee during the ICA regime.[33] This not only is enough to pay farmers livable wages, it pays for other programs in the community as well. At least 15% of the price is used by the cooperative for social development, education and infrastructure purposes.

The Fair Trade movement is about more than livable wages; it is trying to give communities a sense of control in what they are producing. Large-scale companies like Nescafe and Starbucks hold the power of monopsony, where they are the few buyers in a market of many suppliers. Starbucks claims they give the communities from which they

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[32] Gaines, Stuart. "The Politics of Coffee" *Mountain Express,* Vol. 10 / Iss. 24 accessed online 8/30/2007
[33] Interview with Peace Coffee representative, 7/13/07

buy fair prices. However, the fact of the matter is, when they are the only buyers for a region, they hold negotiating powers that cannot be matched by individual growers, or even cooperative groups. Growing communities feel threatened by the fact that they cannot demand better prices, with the threat of their only buyer moving their business elsewhere.

Fair Trade is a way of branding goods. For the U.S. it has a special Trans Fair U.S.A label. Consumers buy these products with the knowledge that their product is giving growers a fair wage. There is a market for socially conscious goods. There are also other niches like this in the market. Many countries are working on branding their coffee as single origin. This marketing scheme is not new, but something that has given Columbia great success. The Columbia Coffee Federation, an aggressive lobbying group that represents Columbia's coffee growers, branded their coffee with the icon of Juan Valdez and his mule. Today the Juan is as well known as the Marlboro Man, and Columbian coffee has trailed his popularity. Ethiopia is working on just such a niche. They have trademarked their coffee that comes from specific regions. The trademarks must be included on labels when roasters include Ethiopian coffee in blends. For countries like Kenya and Uganda that produce coffee that is known for its quality and unique flavor, there is the possibility of further marketing in single-origin coffee. These marketing niches might be successful for certain growers or regions, and might help countries compete. It does not change overall problems in the market of oversupply and lack of real market power.

It is very difficult to raise overall prices with constant oversupply. While large-scale buyers are able to buy cheaper coffees and still blend the same flavor of coffees,

they will. The International Coffee Organization now wants to limit supply by setting new quality standards[34]. With a new minimum international quality standard they can attempt to regulate how much coffee each country can export based on quality. However this will take the kind of cooperation that is reminiscent of the ICA era, and it is doubtful this will gel with the current economic climate.

Producing countries have attempted to set up cartels in the past in order to obtain more control in the market. They have been largely unsuccessful because there is no scarcity power. Coffee takes little more than land and cheap labor to produce. According to Hardford, "Whenever the cartel succeeded in raising prices, new farmers in new countries quickly found it attractive to start growing coffee."[35] When the top coffee producing nations set up a cartel that controlled two-thirds of the world coffee production called the Association of Coffee Producing Countries, it failed and shut down, because Vietnam entered the market.

Although some analysts view this is a good thing because this type of competition irons out inefficiencies. Small, unsuccessful farmers will fall out of the market and this is part of the free system of capitalism. This seems less simple to those doing the growing. While many farmers do not receive the wage needed to survive, they largely do not know what else to grow and/or do not have inputs required to begin growing a new commodity. Many governments as well as international organizations are helping coffee farmers to grow different crops. The governments of Uganda, Tanzania and Kenya, through programs enacted by the East African Community, have encouraged their farmers to expand production to include flowers, fruits and vegetables. This is a slow change for

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their agrarian sectors make the switch to other goods rather an entirely new industry, which is thought to ease the region off coffee. They are even providing seeds and education in assistance. However, in the end these other commodities are simply a short-term solution to the problems that are inherent in the market. Although other crops might give better prices, they are still primary goods. They have inelastic demand and inelastic supply and as stated earlier, while the world income grows, the relative price of these crops will shrink.

On a smaller scale, a new method of aid that has helped make communities in the poorest nations develop is micro lending. Programs for micro lending have had more success than other aid programs. The loans have much higher rates of payoff, and they have also been shown to make communities more sustainable. For these reasons, micro lending programs have received support from the World Bank and other organizations. This is just one of the methods of aid the non profit Coffee Kids has used in making coffee growing communities in South America more sustainable. Loan money is used for community improvements, low-interest loans, scholarships, and micro-enterprises. In Ayahualuco, Mexico, one such loan was used to create a 'culture of saving' in a coffee community. This program began in 1997 with 5 groups of savers and no money in savings. By 2006 the program had 132 groups, involving 3,460 women who had saved over $700,000. This type of aid can assist people in very poor communities by providing new opportunities, but it does not change the overall communities' reliance on commodities, or the poor prices they are receiving for them.

What really needs to be addressed is this trend in the global market that has consuming nations demanding more for less, and producing nations competing to be the

worst. The coffee market provides just one example of how the global south is stuck in a perpetual 'race to the bottom'. They are cutting quality and pay in order to produce at the cheapest price. This system is conducted by the global market and fueled by international corporations, who are able to finance farming and own export companies to siphon the most amount of money from the value chain.

Conclusion

While throughout the 20th century producing nations held the power in the coffee market, since the collapse of the International Coffee Agreement, this has shifted to consuming nations. In the last two decades, new suppliers, changes in demand, as well as the phenomenon of companies like Starbucks, have transformed the market. Although some analysts would argue this is the natural flow of the market, and soon economic inefficiencies will be alleviated, it is further exasperating the gap between the global north and south. If the international community would like to attack this problem, a change in the global economic climate, one that will support supply management, quotas and quality regulations is required. However, while it has been shown that largely value in the coffee market is not being captured by the south, the real issue lies in the path of economic development. Coffee market provides an example of how primary goods cannot provide long-term growth. If developing countries are looking to improve long-term welfare, they will have to look beyond commodity-based exports.

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