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THE INTERNATIONAL COFFEE AGREEMENT AND INDIA

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I

The International Coffee Agreement was signed in 1962 and came into operation in July, 1963. India was a signatory to this Agreement along with 34 other coffee-producing countries and 23 coffee-importing countries of the world.

The genesis of such an agreement is to be found in an attempt in 1940, on the part of the Latin American countries, to fix their export quota for the United States. But this was not successful owing to the limited coverage of the Agreement. In 1957-58 another attempt was made to revive such an arrangement for world coffee exports but as this relegated the importing countries to the background, it did not yield satisfactory results. The International Coffee Agreement in 1962 included both the leading coffee-exporting and the coffee-importing countries of the world. The Agreement was valid for five years in the first instance.

Obviously, the Agreement was the outcome of the declining prices which followed the accumulation of huge surplus stocks of coffee—exportable production having exceeded exports for a number of years. Between 1953 and 1960 coffee consumption rose from 43 to 53 million bags (of 60 kgs. each) but production expanded from 40 to 75 million bags.[1] The surplus stocks in 1962 were sufficient to satisfy world demand for 18 months. Table I indicates the growth of coffee surplus between 1958 and 1962 in Brazil and elsewhere.

TABLE I—COFFEE : EXPORTABLE PRODUCTION AND EXPORTS, 1958-1962

(in million bags of 60 kgs. each)

Calendar year	Total world			Brazil			Other countries		
	Production	Exports	Surplus	Production	Exports	Surplus	Production	Exports	Surplus
1	2	3	4	5	6	7	8	9	10
1958	46.2	36.5	9.7	20.8	12.9	7.9	25.4	23.6	1.8
1959	52.0	42.6	9.4	26.0	17.7	8.3	26.0	24.9	1.1
1960	66.4	42.5	23.9	37.0	16.8	20.2	29.4	25.7	3.7
1961	52.9	43.7	9.2	22.0	17.0	5.0	30.9	26.7	4.2
1962	58.4	46.3	12.0	28.0	16.4	11.6	30.4	29.9	0.5

Source : Gerturd Lovasy and Loreth Brissonneault, "The International Coffee Market," *I.M.F. Staff Papers*, Vol. XI, No. 3, November, 1964, p. 367.

1. J. B. Monteiro, "India and the International Coffee Agreement," *The Economic Weekly*, Vol. 14, Nos. 51 & 52, December 22 and 29, 1962, p. 1957.

Specifically, the major objectives of the International Coffee Agreement were the following:

1. To ensure by comprehensive and centralised control of exports that the general level of coffee prices did not decline below the level of 1962, and the real export earnings progressively increased.

2. To promote the consumption of coffee (although importing members would have no financial obligation) and to work for the removal of obstacles to consumption (*e.g.*, import duties and quotas, tariffs, etc.).

3. To adjust production to demand within the life time of the Agreement.

4. To establish a policy relating to stocks, which producing members "shall endeavour by all means within their power to implement."[2]

It is well known that the major industrial countries of the world are not coffee producers but are the chief consumers and hence they participated in the Agreement in the latter capacity. Another distinctive feature of this Agreement was that for the first time under a commodity control arrangement a system of price discrimination was envisaged. For, the Coffee Agreement divided the coffee world into an organized price-maintained sector on the one hand, and a residual free sector on the other in which the lower prices that could be expected to emerge as a result of competition among exporters might help to stimulate consumption. Importers in the organized sector had no quota obligation but undertook to obtain all their requirements from exporting members, thus effectively insulating the sector from the residual market.

II

There was a controversy as to whether India would gain by participating in the Agreement that sought to restrict output when she had recorded a rapid rate of growth in coffee production from a low base since Independence.

The International Coffee Agreement fixed the basic export quotas by taking the average of a country's exports during the four years immediately preceding the Agreement and making some deduction therefrom representing the quantity to be retained by these countries. Thus India was allotted a basic export quota of 360,000 bags of 60 kgs. each or 21,600 tonnes. The Government of India had protested against this allotment at that time and had been protesting since then in practically every session of the International Coffee Council. For, this quota did not satisfy India's aspirations, as it was based upon the past four years' exports of which two years were relatively low production (and low export) years for India and it did not take account of the sharply rising production trend in India. While the Government of India attempted to raise the basic export quota, it was not fruitful as the major coffee-exporting countries would not agree to any reduction in their share of the total world trade.

Thus, failure to take into account the increasing trends in the production of Indian coffee and the slumps in production in the two years out of the four years

2. R. W. F. Rowe, World's Coffee, H.M.S.O., London, 1965, p. 187.

preceding the Agreement resulted in a somewhat reduced basic export quota for India. But this apparently unfavourable factor must be judged in the perspective of certain favourable conditions enjoyed by India. Firstly, internal coffee consumption in relation to production in India was high in contrast with that in the leading Latin American and the African coffee-producing countries. Secondly, the proportion of coffee exports in total exports from India was meagre relative to those of the Latin American and the African countries. Besides, non-accessibility to the traditional markets in the absence of her participation in the Agreement would have had significantly unfavourable repercussions. For, an increasing volume of trade with non-quota countries—the socialist block in particular—would fail to offset the loss of these traditional markets. In sum, though the fixation of basic export quotas at the level prescribed seemed not quite justified from the point of view of India, her non-participation would have a much more adverse effect.

III

From 1962 till now India has strived hard to raise the export in the quota countries. But in the several meetings of the Coffee Council the basic export quota for India was not raised. Only a waiver grant was sometime permitted at the discretion of the Council. The actual coffee exports from India to the quota and non-quota countries are shown in Table II.

TABLE II—COFFEE EXPORTS FROM INDIA TO QUOTA AND NON-QUOTA COUNTRIES

(*in tonnes*)

Year	Total Exports	Exports to quota countries	Exports to non-quota countries	Percentage of col. (3) to col (2)	Percentage of col. (4) to col (2)
(1)	(2)	(3)	(4)	(5)	(6)
1962-63	25,072	21,469	3,603	86.4	13.6
1963-64	32,123	24,128	7,995	75.1	24.9
1964-65	27,558	18,166	9,392	65.9	34.1
1965-66	23,649	15,739	7,910	66.6	33.4
1966-67	34,606	23,200	11,486	67.1	32.9

Source : J. M. Abraham and K. L. Sinha, "Exports—A Review with reference to Coffee," *Indian Coffee*, December, 1967, p. 12.

During the Agreement year 1962-63 India was allowed an annual quota of 21,384 tonnes, being 99 per cent of the basic quota of 21,600 tonnes for export to quota countries. The actual shipments amounted to 21,469 tonnes to quota countries and 3,603 tonnes to non-quota countries during the year. In the year 1963-64 India was allotted 102.15 per cent of the basic export quota, *i.e.*, an exportable total of 22,064 tonnes to quota countries. A further waiver grant of the order of 367 tonnes increased the quota by 22,431 tonnes which in turn was made possible only by virtue of the shortfall in production and exports experienced in some of the exporting countries. Actual shipments recorded in 1963-64 were 24,128 tonnes to quota countries and 7,995 tonnes to non-quota countries, which implied a remarkable increase over the previous year. In 1964-65 and 1965-66 Indian coffee exports to quota countries fell short of the basic quota and the annual quota as a result of the low crop for two years in succession. For 1965-66 the annual export quota for India was fixed at 21,871 tonnes, but the actual shipment to quota countries fell short by 5,000 tonnes. The quota for India for 1966-67 was 23,774 tonnes out of which 1,500 tonnes could be used only if India would agree to certain conditions imposed by the International Coffee Council for reducing the coffee acreage in the country. As this was not feasible, the net permissible quota turned out to be 22,275 tonnes. The actual shipment made possible during 1966-67 stood at 23,200 tonnes owing to the non-fulfilment of the basic quota in the previous year. In the non-quota countries the exports increased remarkably reaching a record level of 11,486 tonnes in that year.

IV

The Council of the International Coffee Organization met in late 1967 to continue its deliberations on the revision and extension of the original Agreement that was to expire at the end of September, 1968. The Council's main achievement was in approving by a large majority a new set of basic quotas to come into force on the extension of the Agreement.

The new Agreement understandably contained a general agreement among members, "to operate it in a manner such that the real income derived from the export of coffee could be progressively increased so as to make it consonant with their needs for foreign exchange to support their programmes for social and economic progress."[3] The members also agreed on the necessity of assuring that the general level of coffee prices did not decline below the 1962 level and on the desirability of assuring the consumers that their policy would not hamper a desirable increase in consumption.

The basic export quota as raised by the new Agreement was 55.04 million bags for 28 producing countries as against the previous total of 46 million bags. The quota was based on the production figures for the seven-year period 1959-66. The quota for Brazil was raised from 18 million bags to 20.9 million bags whereas the quota for India was 423,000 bags. For almost all the participating countries of the Agreement the export quota was raised as compared with the 1962 Agreement excepting Venezuela and Cuba for whom the quotas under the new Agreement were reduced. In Table II the basic quotas for different exporting countries under the new (and the old) Agreement are shown.

The table indicates that the African countries except Malagasy were granted very sharp relative increases in basic quotas ranging from 26 per cent for Uganda to as high as 75.7 per cent for Ethiopia. This may be attributable, in the main, to two factors. There was a spectacular rise in productivity as well as production of coffee in the low cost African coffee-producing countries while implementation

3. *Tropical Products Quarterly* (Commonwealth Secretariat Commodities Division, London), Vol. IX, No. 1, March, 1968, p. 28.

TABLE III—BASIC EXPORT QUOTAS UNDER THE COFFEE AGREEMENTS

(in thousand bags)

Countries	Quota under the 1962 Agreement	Quota under the 1968 Agreement	Percentage increase in 1968 over 1962
Brazil	18,000	20,926	16.2
Colombia	6,011	7,000	16.4
Elsalvador	1,430	1,900	32.9
Guatemala	1,345	1,800	33.8
Mexico	1,509	1,760	16.6
Costa Rica	950	1,100	15.8
Ivory Coast	2,234	3,073	37.5
Cameroons	673	1,000	31.1
Malagasy	823	910	9.8
Uganda	1,888	2,379	26.0
Kenya	517	860	66.3
Tanzania	435	700	60.9
Portugal (Africa)	2,189	2,776	26.8
Ethiopia	850	1,494	75.7
Congo	700	1,000	42.8
India	360	423	17.5

Source : op. cit.

of diversification scheme in Brazil and Colombia had stood in the way of expansion of the production in these two countries, Secondly, as the U. S. demand for coffee constituted a sizable portion of total coffee exports of the world, an increasing demand for African Robusta coffee for purpose of processing in that country justified the high percentage rise of export quotas for the African countries. In general, about 16 per cent rise in the export quotas was allowed to countries exporting more than 5,000 bags, while 30 per cent increase was sanctioned to those exporting between 1,000 and 5,000 bags except Mexico, and about 39.9 per cent to countries exporting less than 1,000 bags. However, India's gain was only to the extent of 17.5 per cent, although she belonged to the last category.

V

Some have pointed out that India could maintain and even increase her exchange earnings for coffee by concentrating on quality rather than on quantity. This, according to them, would be a much better alternative to the securing of higher export quotas. This, however, is partially true. For, although the plea for quality improvement is sound, production restriction is certainly not a desirable long-term remedy for India's coffee economy. Any restriction of production by decreasing the cultivable coffee land will eventually mean that the increasing internal demand could not be met in the future and India may have to depend on foreign supplies to satisfy her own demand for coffee.

The first and foremost measure which the Government of India should emphasize is to increase the world demand for coffee, specially for Indian coffee. We, like other exporting countries, are indebted to the International Coffee Organization which is striving hard to stimulate world coffee consumption as a result of the concerted propaganda of producing countries. At the time of inception of the International Coffee Agreement, the rate of increase of world coffee consumption was about 2 per cent per annum—a rate really disappointing, considering the increase in population. With a view to creating new global demand for coffee, the World Coffee Promotion Committee was established in 1964 for which a fund was formed by compulsory contribution from the exporting members of the Agreement. As a result of these activities of the Committee, world demand for coffee was actually stimulated perceptibly.

Within the framework of the Agreements it was not impossible for India to increase her exports to the traditional markets as well and hence to secure a rise in her export quota if there could be an increasing demand for Indian coffee in these markets. Before the Second World War, the largest part of India's coffee exports was absorbed in the British market. But India partly lost her share in the U. K. market for various reasons in the post-war period. Though Indian coffee is highly demanded in the U. K. market, the prices of Indian coffee are generally considered too high compared with coffees of other origins. And owing to delayed and unplanned shipments, as also the higher freight charges, the foreign demand for our product cannot be properly tapped, although, we along with other Commonwealth producers, enjoy a tariff-free entry into the British market. Hence, with a view to increasing our coffee exports to the U.K., the Government of India should pay attention to eliminating the above problems. In the Western European countries too, there is a great potential for increasing the demand for Indian coffee.

In any case, with the imposition of export quota for the traditional markets, an all out effort should be made to increase our coffee exports to the non-quota countries. It is evident from Table II that the quantum of coffee disposed of in the non-traditional markets is gradually increasing and no stone should be left unturned to further step up the exports of coffee to these counties. From the standpoint of India, the principal exporting countries in the non-quota group are the U.S.S.R., Rumania, Poland, Hungary, East Germany, the Middle Eastern countries and Japan. In contrast to the Middle Eastern countries, exports to the East European countries are highly encouraging. Recently, to explore ways for promotion of the demand for Indian coffee in some non-quota countries, a delegation was led by the Chairman of the Coffee Board to countries like Japan, Hongkong, Thailand, Malaysia and Singapore. Further efforts should be made to boost the sale of Indian coffee in these markets.

Moreover, instant coffee is not under the rules of quota obligation. Recently the world market has witnessed a substantially increasing trend in the demand for instant coffee. To exploit this situation, the Indian Government has set up some processing units for instant coffee. Since 1966-67 a market has developed in the U.S.S.R. for instant coffee and this should be exploited still further with a new instant coffee plant that is expected to start production shortly in 1968-69. Thus, India could also supply instant coffee in the near future to American and other European countries and thereby increase her coffee exports.

As is well-known, Indian coffee is noted for its intrinsic quality and suitability for blending with coffee of other origins. So, Indian coffee could hold its position, especially in the quality conscious traditional markets only if the quality of coffee is vigorously maintained and progressively improved. Next to price, quality would best add to the competitive strength of our coffee. To achieve this, proper attention must be paid right from the stage of picking till the coffee is finally placed before the consumers. Now, the better quality Colombian coffees are sold at a premium compared with other coffees. In the 'thirties, our coffees were second only to Costa Rica's in respect of quality. This primarily accounted for the fact that while the price of Brazilian coffees fell by 48 per cent between 1925 and 1930, the prices of Indian coffee fell by only 38 per cent.[4] Today Indian coffee is losing grounds to coffees from Kenya, Colombia, etc., owing to higher cost-prices. So, qualitative improvement besides technological progress in coffee cultivation turns out to be the best way out of this unfavourable situation.

One ought to point out further that the International Coffee Council should pay proper attention to the question of reducing the various taxes imposed on coffee as far as practicable. High taxes on coffee in the Western European countries are a major impediment to increased coffee intake in those countries. It has been estimated by the F.A.O. that a total abolition of special taxes and duties in Finland, Western Germany, and Italy would increase coffee consumption by 67,000 tonnes, although the price elasticity of import demand for the commodity in the high income countries is relatively low.

VI

Conclusions

The immediate objective of the International Commodity Agreement was to arrest the persistent downtrend in coffee prices which in 1962 reached the lowest level since 1949. Its long run objective was to stabilize the coffee market by bringing production and consumption into a reasonable balance. At least, partly as a result of the Agreement there was actually a slight rise in prices for coffees of different origins including those for Indian coffee as shown in Tables IV and V. In particular, the diversification programme as adopted in Brazil and Colombia had a perceptibly favourable influence on coffee prices. The rise in coffee prices was also facilitated by the reduced output in Brazil following natural calamities.

4. J. B. Monteiro, *op. cit.*, p. 1959.

TABLE IV—AVERAGE PRICES OF COFFEE IN THE WORLD MARKET (NEW YORK) FOR 1962-1965

(*in cents per pound*)

Countries	1962	1963	1964	1965
Brazil (Santos 4)	33.96	34.11	44.66	44.71
Colombia (mams)	40.77	39.55	48.80	48.49
Elsalvador (central standard)	35.86	35.44	47.20	45.55
Guatemala (prime washed)	35.85	35.40	47.16	45.51
Mexico (prime washed)	35.81	35.56	47.16	45.54
Ethiopia (Djimmas, U.G.Q.)	32.68	32.75	43.75	42.76
Port West Africa (Ambriz, No. 2 A.A.) ..	21.55	28.73	36.38	31.59
Uganda (W and C.N.)	21.07	28.14	35.82	33.33

Source: *Annual Coffee Statistics* (Pan American Coffee Bureau), No. 29, 1965, p. 160.

TABLE V—EXPORT PRICES OF INDIAN COFFEE

(*Rs. per 50 kgs.*)

	1961-62	1962-63	1963-64	1964-65	1965-66
Plantation A	221.19	201.80	228.97	238.88	229.68
Arabica Cherry	152.29	168.18	202.61	204.76	192.11
Robusta Cherry	86.16	108.77	185.79	N.A.	167.41

Source : Different issues of *Indian Coffee* and Indian Coffee Statistics, Coffee Board.

Though the Indian quota under the new 1968 Agreement appears unsatisfactory at a level of 25,000 tonnes which represents a 17.5 per cent increase over the past level, India should not be worried about this as she cannot plausibly hope to export larger quantities of coffee to the quota countries till 1971 under existing conditions. However, a quota of 25,000 tonnes beyond that date would seem to be too low in the light of the production and export trends.