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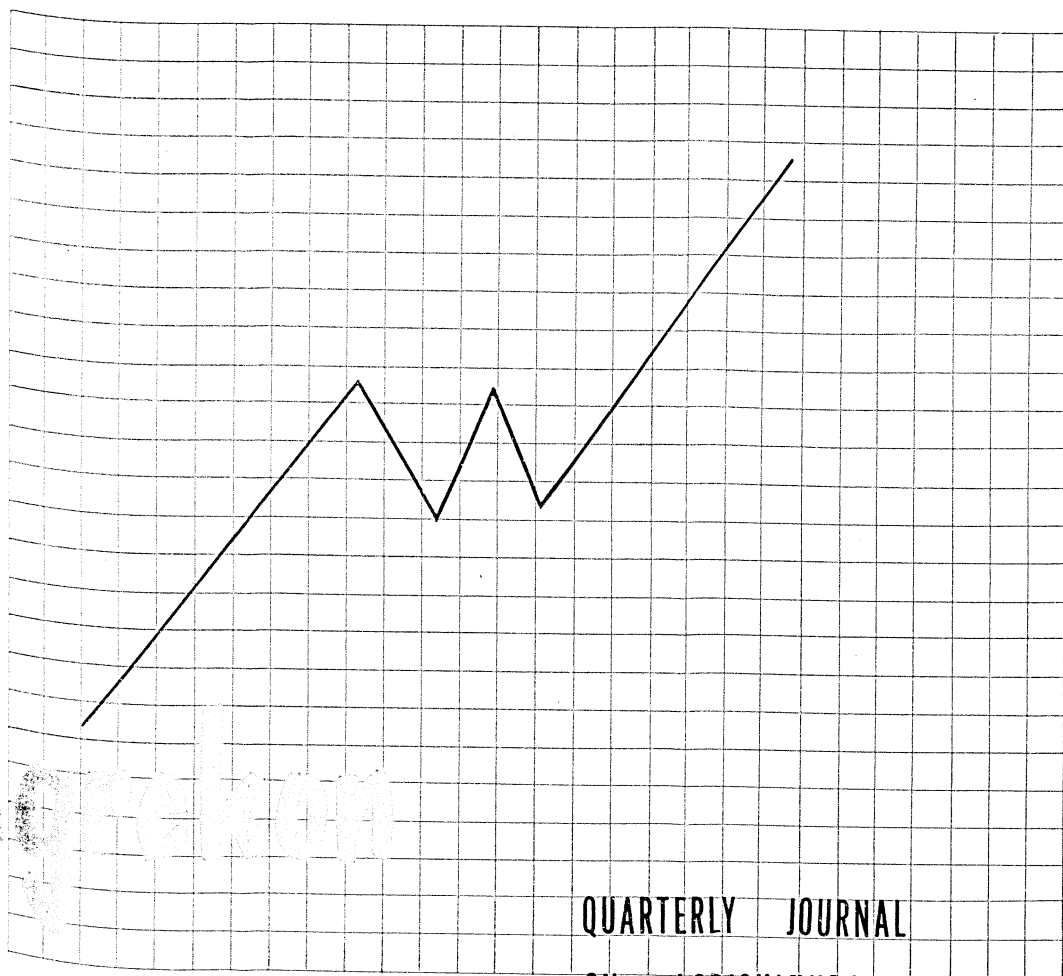
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REQUIREMENTS FOR CONTRIBUTION

Deserving articles in the field of agricultural economics, for publication in this journal, will be welcomed.

These articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. All contributions should be submitted in triplicate (preferably in both languages) to the editors, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should be received by the editors at least one month prior to publication date.

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Economic Implications of Coffee Production in South Africa*

by

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INTRODUCTION

In the past, all the coffee consumed in South Africa had been imported from various countries. This coffee had been roasted and ground locally, and mixed with chicory in various proportions, before being marketed.

Lately, however, the possibility of coffee production in the Republic has been suggested, especially by immigrants from Central Africa. Land suitable for coffee production is available and some coffee plantations have already been established. The prospective coffee farmers are optimistic, and aim at production not only for the local market but, at a later stage, for the export market as well. However, as far as coffee is concerned, the international trade requires preliminary planning. It is therefore quite possible that, being too optimistic, coffee farmers may later find themselves saddled with unexportable surpluses.

LOCAL CONSUMPTION OF COFFEE

The annual consumption of coffee in South Africa amounts to about 12,000 tons. In the past, this coffee had been imported at a cost of between R3½ million and R4½ million in foreign currency.

The most recent complete figures available are for 1962, when 12,250 tons of raw coffee (value R3,882,962) were imported. To this figure should be added roasted, ground and mixed coffee to the

value of R8,000. Thus more than 99 per cent of our coffee is imported in the raw form. Imports in respect of previous years follow the same pattern; a decline in imports is, however, apparent. The decline is mainly in the more expensive varieties of Arabica, imported from Kenya and Tanganyika. Particulars of the 1962 imports of raw coffee are shown in the accompanying table.

The proportionate consumption remains fairly constant from year to year. Roughly it consists of 40 per cent poor quality Arabica, 54 per cent Robusta and 6 per cent good quality Arabica from Kenya and Tanganyika.

COFFEE PRODUCTION IN SOUTH AFRICA

According to available information, nearly 1,000 morgen of coffee trees have already been planted in Northern Natal. All these consist of Arabica trees, of the variety planted in Kenya and Tanganyika.

The plantations are mostly concentrated around Stanger in Natal, although smaller plantations also occur near Port St. Johns and a few other places in Natal and in the Lowveld of Transvaal. A coffee producers' association, aiming at co-operative marketing has been formed by about 120 farmers who have already established coffee plantations. The first trees will come into full production during the winter of 1965. Experiments can then be made with processing; that is, the drying and cleaning of the raw beans before being sent to the factory for roasting, grinding and mixing.

*This article will be followed by one of the chicory industry in South Africa.
- Editor.

TABLE 1. - Imports of raw coffee by the Republic of South Africa during 1962

Country from which imported	Variety*	Quantity (short tons)	Percentage of total	Value	Average price per ton
			%	R	R
Kenya	Arabica	557	4.6	335,233	604
Tanganyika	Arabica	190	1.6	78,690	414
Uganda	Robusta	4,033	33.0	950,850	236
Western Africa	Robusta	2,484	20.1	421,411	170
Other	-	18	0.2	11,200	614
South America	Arabica	4,928	40.5	2,085,578	423

* Countries in the same region are grouped together and small variations with regard to prices or varieties will occur. In the South American group a quantity of expensive coffee is included. This tends to increase the average price in this group. Prices of most varieties in this group, however, are appreciably lower.

Assuming a possible yield of one ton per morgen, South Africa should produce about 1,000 tons of raw Arabica coffee (Kenya variety) within the next four seasons. During 1962 imports of this kind of coffee amounted to about 750 tons; that is, less than 10 per cent of the local consumption of all varieties of coffee. This means that local production of the Kenya variety of Arabica will exceed local consumption by about 250 tons within the next few years (when the trees come into full production) - unless consumption is increased. The possibility of increase in consumption will be dealt with below.

Some coffee dealers maintain that South African consumers prefer the South American varieties of Arabica coffee to those from Kenya and Tanganyika. Tastes are apparently such that the proportion of the latter varieties cannot be increased in coffee mixtures. This means that the proportion of locally-grown Kenya variety of Arabica cannot be increased much above 10 per cent of the locally-consumed coffee. Some 90 per cent (all the Robusta and the South American variety of Arabica) would still have to be imported; unless Robusta can be grown locally - a possibility that has as far not been investigated, but that cannot be excluded.

THE WORLD COFFEE TRADE

Where it had previously been unorganised, the coffee trade is now controlled by the Executive Council of the International Coffee Agreement, with headquarters in London. No country can therefore enter the international coffee trade without consulting the executive body of the International Coffee Agreement. This, as well as the prevailing world surplus of coffee, is of extreme importance for the future development of a local coffee industry.

A surplus production of coffee in the Republic will immediately create a problem. This must be taken into account in future research programmes.

THE INTERNATIONAL COFFEE AGREEMENT

This body had been sponsored by the Food and Agriculture Organisation of U.N.O. One of the main aims of the F.A.O. is the development of underdeveloped countries. In view of the fact that most coffee producing countries fall under the underdeveloped group, the F.A.O. had decided that the coffee industry will provide a good opportunity for helping with the development of these countries.

The initial work had already been done in 1961, with the understanding that the Agreement will come into force on the 1st of January 1964 - provided that support for it were obtained beforehand.

As far as is known, it has already been signed by 36 out of 45 exporting countries (representing 91 per cent of total exports), and by 22 of the 71 importing countries (representing 94 per cent of total imports). With this support the Agreement came into force on the date mentioned.

The most important objectives of the Agreement are the following:

1. To stabilise the coffee market as far as supply and demand are concerned, as well as the prices of coffee.
2. To encourage the consumption of coffee in countries where it seems to be rather low.
3. To help in developing the coffee industry in the producing countries in order that the coffee may eventually be processed in the country of origin and exported in the roasted and ground form.

In formulating the Agreement, all producing as well as consuming countries were grouped, whether they signed the Agreement or not, into the following groups:

Group 1. Basic exporting countries.

Group 2. Importing countries where there is a possibility of increasing the per capita consumption.

Group 3. Importing countries where the per capita consumption is already at a high level.

According to the above classifications, the Republic of South Africa had been placed in group 2. An attempt will therefore be made to increase the per capita consumption in South Africa.

There are 74 regulations in the Agreement; some of these of importance to the Republic are as follows:

1. Not more than 10 per cent foreign material may be included when mixing coffee for consumption.
2. Exports to group 3 countries are subjected to a levy. Exports to group 2 countries are at ruling prices, without imposing a levy. It is hoped that the lower price will stimulate consumption in the latter countries.
3. All member countries (producers as well as consumers) pay an annual membership fee, for the purpose of covering administrative costs.
4. Member countries may not import coffee, process it and re-export the processed article. This is also binding on non-member countries. Member countries are subjected to disciplinary action, while non-members can be regrouped under group 3 in case of re-exportation.
5. The grouping of countries is reconsidered annually, and countries can be classified under another group.
6. The levies will be used to develop the industry in the producing countries, so that eventually only the final product will be exported.

THE INTERNATIONAL COFFEE AGREEMENT AND THE REPUBLIC OF SOUTH AFRICA

As mentioned, South Africa was placed in group 2 (with 28 other countries); in other words, the idea is that coffee consumption in South Africa can be increased. As far as is known, Japan and Russia are the only countries in this group who signed the Agreement. (Nearly all well-known Western countries were placed in group 3 and they signed the Agreement - for example, the U.S.A., United Kingdom, Canada, Western Germany, France etc.)

If South Africa signs the Agreement, the following will be some of the effects:

1. It will be contravening the Agreement to re-export coffee, as the Republic is doing now on a small scale.

2. Our coffee mixtures contain up to 75 per cent of chicory, and therefore do not employ with the requirements of the Agreement which limits foreign matter in coffee to 10 per cent. Signing of the Agreement will therefore destroy our chicory industry; and the price of coffee will rise steeply, as chicory is appreciably cheaper than the cheapest coffee. The sale of 10,100 tons of chicory to the coffee industry during 1962 resulted in an income of R925,073 for the chicory industry. An average price of about R90 per short ton was thus obtained. (During 1961 some 11,100 tons were sold to the coffee industry, valued at R1,038,373).

3. Although the Agreement is not explicit on this matter, there will probably be some trouble if locally-grown coffee should be exported. The countries who signed the Agreement are all either importing or exporting countries (of raw coffee); at present there is no importing/exporting member country.

For South Africa the disadvantages outweigh the advantages; it was therefore decided not to sign the Agreement.

As already pointed out, the Republic may in future become a coffee exporting as well as an importing country, and may then be reclassified by the International Agreement under group 3. Arguments for such action can easily be found. The arguments may be that South Africa, through exportation, is showing that consumption is not increasing, or that imported coffee is being included in the exports. Any of these arguments may justify transfer to group 3. Transfer to group 3 will mean that South Africa will have to pay the fixed levy for group 3 countries. At present the levy is between R10 and R100 per ton, depending on variety and quality.

A rough estimate, of what this levy would amount to, is between R35,000 and R400,000 annually to import 11,000 tons of

coffee (i.e. 90 per cent of our consumption). This means that the import price of coffee will increase by at least R30 per ton. In order to offset this additional expense on the foreign account, at least 700 tons of coffee would have to be exported at R500 per ton*. As already indicated, the export markets are limited as a result of the Agreement, and member countries are not allowed to import more than 5 per cent from non-member countries. Moreover, most countries well-disposed towards South Africa are signatories to the Agreement.

Therefore, entering the coffee export trade, with a limited quantity, will probably have more disadvantages than advantages for South Africa.

During 1962 the F.A.O. released a publication in which the future possibilities of some agricultural products were discussed. According to this report there is a tendency in most consumer countries to use more Robusta coffee. Robusta is mainly used for the preparation of "Instant Coffee". It is also maintained that Robusta coffee is easier and less expensive to cultivate. According to some sources of information, it would also appear that yields from Robusta are higher than from Arabica.

SUMMARY

1. The existing plantations are sufficient to supply the present local demand for good quality Arabica (Kenya variety). Evidently farmers are still establishing new plantations; a surplus of this variety of coffee may thus be expected, unless the consumption can be increased. Whether the local product will be of the same quality as the imported Kenya coffee, remains to be seen.

2. The relative local and world demands for Robusta are increasing gradually,

*An estimate of what locally-grown Arabica would sell for on the world market. A higher price might be realised, but it is dangerous to be too optimistic.

because this variety is used for "Instant Coffee". On the other hand, there are large surpluses, especially of low-grade Arabicas, on the world market.

3. The International Coffee Agreement precludes the entry of South Africa to world trade. Firstly, South Africa will be classified under group 3; secondly, other countries will be unwilling to buy from South Africa as this will affect their own position. Apart from being bound by the Agreement to buy at least 95 per cent of their coffee from member countries, it is also a fact that Western countries are doing everything possible to retain the favour of the underdeveloped countries.

4. The Agreement's aim is that eventually all coffee should be processed in the country of origin - which will mean that eventually imported coffee will be more expensive.

5. In comparison with other Western countries, most consumers in South Africa have little taste for good coffee. This is borne out by the fact that the amount of chicory consumed is more or less the same as that of coffee; and furthermore that a much larger quantity of low-grade coffee is being imported than high-grade coffee.

6. A significant cross-relationship exists between coffee and tea. Accordingly consumers will easily change to tea if the price of coffee should increase. This favours the chicory industry, and it also allows coffee dealers to sell large quantities of low-grade coffee without protests from consumers.

7. Soil and climatic conditions suitable for Robusta production occur in northern Natal, which includes Bantu homelands

as well as European farms. There is no doubt about a stable market for Robusta. Provided Robusta can be produced economically, a healthy Bantu homeland industry can be developed in this area. Lately there has been an appreciable rise in the prices of Robusta; and, if this tendency continues, many white farmers, as well as the Bantu homeland concerned, should be able to produce Robusta very successfully. The production of Robusta may eventually even surpass that of Arabica, with which a start has already been made.

8. The contention by some coffee dealers that the proportionate consumption of Kenya variety of Arabica will not increase, is, in my opinion, ungrounded. This opinion is probably based on prices, not tastes. Some experts on the taste of coffee had been consulted, and they all agree that the flavour, etc. is affected mainly by the chicory in the mixture. By using a cheaper coffee in the mixture, a bigger profit can be made. It is, however, important that raw coffee offered to the manufacturer should be of the same variety, size, stage of maturity, etc.

9. In conclusion, it may be mentioned that Kenya, Tanganyika and Uganda imported a total trade embargo on exports to South Africa during 1963. Should the International Coffee Agreement be implemented literally, it would prevent coffee from these countries from reaching the Republic through other countries. A country wishing to become such a "middleman", would have to re-export coffee, and this is prohibited by the Agreement. If this embargo remains in force, it might mean that consumers would have to drink more locally produced Arabica when available, whatever their preference. Meanwhile the better varieties of Arabica are imported from a few Central American States.