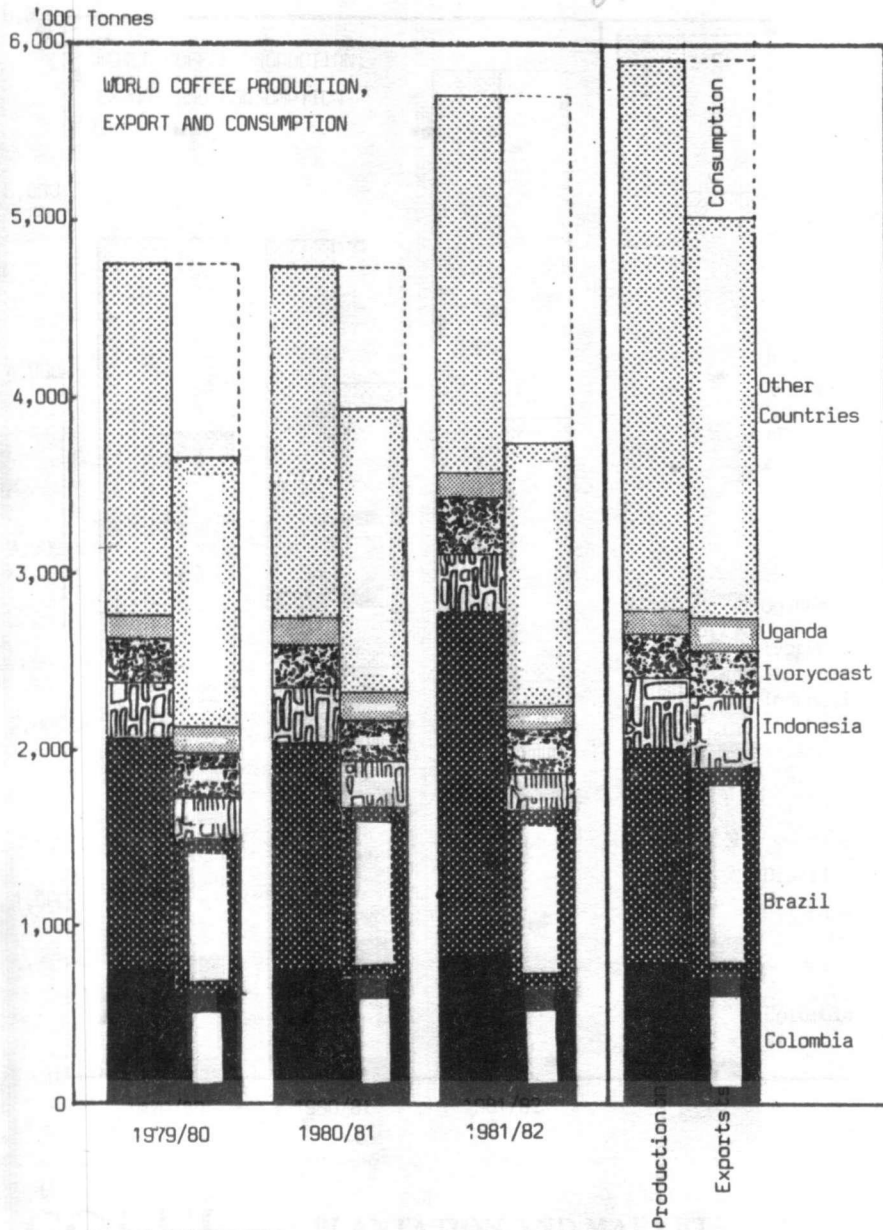


633-73: 380 12



COFFEE - PLANTATION AND MARKET

- A SRI LANKAN AND INTERNATIONAL PERSPECTIVE.

INTRODUCTION

General Characteristics of Coffee Production and Trade

Coffee was 'King' over a century ago till the blight wiped it out and made way for Tea which dominated Sri Lanka's economy ever since. But over the past few years coffee has emerged as one of Sri Lanka's important Traditional export crops. From exports of only 132,100 kgs in 1973 coffee exports registered sustained increases over the next ten years to reach a record 3,124,400 kgs by 1983. The acreage under coffee

has also shown consistent expansion and is estimated to be well over 30,000 acres today. The latest International Coffee Agreement which came into force in October 1983 has defined quotas for producer countries, including Sri Lanka, containing the unmitigated expansion of coffee acreage for exports. The larger traditional producers and exporters would feel the effects of such restrictions before new newcomers

such as Sri Lanka are affected. The country inclusion in the ICA has helped Sri Lanka not merely to step up its exports but also gain better prices. This brighter outlook has resulted in more producers taking to coffee cultivation crops for added incomes in the export crop sector. This Special Report compiled by T.B. Karunaratne looks at the situation both locally and internationally.

In the world coffee trade there are two major varieties or species which dominate the market: namely Arabica and Robusta, (Box 1) The Arabica species is cultivated mostly in Latin America with Brazil ranking first among all coffee producing countries. Colombia ranks second in world production.

Robustas are grown principally in Africa. (See Box 2) Ivory Coast is the major producer, followed by Uganda. The coffee supplied by other countries are called milds. About 30 percent of the world's total coffee consumption is composed of Arabica species. In the international trade coffees are identified not only by the country from which they are exported but also by the districts where they are grown and by ports through which they are shipped.

The principal coffee producing and exporting countries in the world are Brazil, Colombia, Ivory Coast, Angola, Uganda, El Salvador, Mexico, Ethiopia, Guatemala, Indonesia, Philippines, Papua-New Guinea, Zaire, Cameroon, Costa Rica, Kenya, Malagasey, Peru, Tanzania, India and Ecuador. Annual supplies of these countries are more than 500,000 bags of green coffee each.

In the world coffee market, the trade takes place in the form of green coffee; roasted coffee; ground coffee; and soluble instant coffee. The primary export trade is in the form of green coffee,

AFRICA'S MAJOR PRODUCERS - HOW THEY STAND

Ivory Coast (R): The continent's largest producer suffered a serious fall in production in 1983/84 as a result of drought and a downswing in the coffee cycle. USDA told AED on 11 September it now estimates 1983/84 production at 1.92 million bags, over 55 per cent down on 1982/83's 4.3 million. Local sources put 1983/84 output even lower - at 1.34 million bags. Ivory Coast has used up stocks of some 2.7 million bags to meet its quota but is still expected to have supply difficulties in the first quarter of the 1984/85 coffee year.

Generally, however, prospects for 1984/85 have brightened. There have been no official estimates for the upcoming crop but USDA puts production at least 5 million bags (4.93 million exportable) - the high end of local estimates which range down to 4.2 million bags.

Agriculture Minister Denis Bra Kanon has stressed that Ivory Coast has every intention of remaining a major coffee exporter, with annual production expected to stabilise around 5 million bags. He has urged small farmers, who produce the bulk of Ivorian coffee, to improve the quality of their crop. Quality deteriorated badly in the 1983/84 season and phytosanitary treatment against disease, more pruning and re-planting are among measures being taken.

The number of authorised coffee buyers is also being reduced, by about one third. Competition between the buyers - mainly Lebanese - has led to many farmers being persuaded to sell their coffee before it has been adequately dried and fermented, industry sources say. The sources doubt, however, that the move will greatly help the drive to improve quality. The government has not given any indication that it is willing to offer farmers a premium for quality coffee or that an increase in the general producer price is on the way.

Uganda (R): This has been a fortunate year for Uganda coffee industry. Production has held up well and, as the country missed the worst of the drought now affecting other east African producers, there has been no threat to 1984/85

output. Output is expected to be around the 1983/84 level of 3.4 million bags. Transport problems affected shipments badly in the 1982/83 season and in the first part of 1983/84, but the situation has improved radically.

This should allow Uganda comfortably to maintain its rank as the second largest African exporter. With fellow robusta producer Ivory Coast facing continuing supply difficulties in the first quarter, Uganda may win the right to ship without restraint part of its 1984/85 quota between October and December.

Present circumstances could therefore favour Uganda's search for a higher quota. Co-operatives & Marketing Minister Yona Kanyomozi announced on 9 September that Uganda was seeking an increase of 30,000 bags on its present quota of 2.5 million bags. Kanyomozi visited Abidjan in July, for talks with his Ivorian counterpart Agriculture Minister Denis Bra Kanon, and also visited other ICO member countries, including Brazil, to seek support for Uganda's case. Kanyomozi has said that stocks have now risen to 3.86 million bags from 2.9 million last year, reinforcing the need for a quota revision.

Ethiopia (a): Ethiopia vies with Uganda for the position of second largest African coffee producer. It has the largest domestic consumption - about 55 per cent of output - making it number three or four in the export stakes. USDA puts exportable production at 1.7 million bags for 1983/84, but only 1.335 million bags for 1984/85 because of drought in the key southern growing areas. Total production is put at 3 million bags, compared with 3.35 million in 1983/84.

Ethiopian officials put the 1983/84 crop at 3.7 million bags and still expect an even bigger harvest in 1984/85, forecasting growth of at least 15 per cent. This implies exportable production of around 1.9 million bags and is the basis for Coffee & Tea Development Minister Yehaula Eshet Girma's determined campaign to raise Ethiopia's quota.

With Ethiopia's present quota - 1.47 million bags - above some estimates of its likely 1984/85 exportable production, Yehaula could face a tough battle

to get an increased quota share. Possible reductions in Brazil's crop - which is of a similar type - might help, however.

Ethiopia has embarked on a large-scale programme to expand and improve its coffee production. The second stage of its coffee processing project got under way this year with a £ 34 million loan from the World Bank. Some 60 washing stations will be built to add to the 76 built in the first phase. Varieties resistant to coffee berry disease are being planted, and the Coffee Plantation Development Corporation plans to add 10,000 hectares on state farms to the existing 450,000 hectares - mostly peasant holdings - under coffee. Even if it is disappointed on its quota this year Ethiopia will be pushing for a higher share in subsequent years to match what it hopes will be rapidly expanding output.

Cameroon (Ra): Production has held up relatively well, despite drought in key growing areas. Exportable production in 1983/84 is put at 1.3 million bags by USDA, a decline of nearly 40 per cent. However, latest government estimates put 1983/84 output at 2.2 million bags against 1982/83's 1.95 million. A five-year development plan is coming to a close with a range of incentives - increased producer prices, cash bonuses to replace ageing plantations, fertiliser subsidies - bearing fruit. Targets for 1985/86 of 1.5 million bags of robusta and 640,000 bags of arabica have now been realised, the government claims. Both government and USDA agree that production is set to rise again in the 1984/85 season, with the latter putting exportable production at around 2 million bags, nearly 50 per cent up on its 1983/84 estimate of 1.35 million.

Kenya (a): Drought has hit prospects for the 1984/85 crop, with exportable production put at 1.1 million bags by USDA, compared with 2.1 million bags for the previous season. Coffee Board of Kenya (CBK) has yet to release final figures for 1983/84 but local sources say the crop was a record one and they predict a carryover of at least 900,000 bags into 1984/85. Coffee is the leading foreign exchange earner so the government is pushing hard for an increase in its quota which, at 1.4 million bags, it only two-thirds of expected 1983/84 exportable production.

Coffee traders are more bullish than USDA about next year's production saying that while there has been

drought around Nairobi some rain has fallen in the other principal growing areas around Mount Kenya and in the west. USDA officials now concede that their earlier estimate was based on inadequate field information and that the downturn may not be as steep as predicted.

"It's worked out quite well. We will be bringing forward a surplus that will more than fill any holes created by the drought," one trader told AED. "There's no doubt that Kenya will be able to meet an increased quota." CBK chairman Henry Kinyua said in July that Kenya would be seeking a higher quota share for 1984/85 as a result of the present season's bumper crop.

Kenya has been an active seller to non ICO members, mainly Sudan, Jordan, Saudi Arabia and Egypt and to east

Europe. Some 145,000 bags are expected to have been sold in the non-quota market by the end of September, at prices well below that in the quota market.

Large carryover stocks and a desperate need for foreign exchange will mean Kenya will push hard for a higher quota - and for higher prices. Traders argue that their supply reliability and the distinctive flavour of Kenya's arabicas will mean their request being viewed favourably by consumers. But producers may have different ideas. Colombia, for example, which produces a similar coffee, is expecting only a marginally reduce crop for 1984/85 and is determined to keep its market share.

Zaire (R): Production, affected by drought in the 1983/84 season, is expected to recover in 1984/85 to 1.55

million bags, from 1.48 million bags in the previous season, with a corresponding improvement in exportable production. Continuing drought in eastern Kivu province could still affect production levels, but with end-year stocks close to total annual exportable production levels the government is keen to see its quota for the coming season increased.

Tanzania (Ax): Production, like Kenya's, has been threatened by drought. In July, USDA ut 1984/85, production at 1.07 million bags - after a fall to less than 1 million bags in 1983/84 - but now says it could be even lower, around 920,000 bags. The government, badly in need of foreign exchange, hopes to increase output.

A=arabica; R=robusta, Lower-case letter indicates less important crop

which is graded and tested by buyers representing the larger importers in principal consumer countries. The practice of grading coffee gives sellers and buyers a guarantee concerning the origin, nature and quality of the product, which also facilitates their trade negotiations. Once the green coffee arrives in the importing country it is roasted. A large part of the coffee is ground or milled by manufacturers immediately after roasting and then packed and distributed to consumers through the recognized market and distribution network. Most of the roasters blend different types of coffee. There are about eight shades in roasting. Effective packing prevents air from reaching the coffee. Ground coffee alters rapidly and loses its aromatic qualities if it is not put into hermetically sealed containers immediately.

Different types of coffee seem to have one or several characteristics which the blenders and customers prefer to have when they make their choice. Some such characteristics found in different varieties of coffee are as follows:

Trade Year of Coffee

According to the international sources the accepted coffee year (in contrast to calendar year)

is from 1st October in any year to 30th September in the following year. This acceptance is based on the seasonal pattern of supply of coffee to the market. Observations on the supply position of Sri Lanka for the last few years also tally to a large extent with this time period. As shown in the graph below and table 1 our cyclical upswing of the coffee year occurs

around October each year. Except for very special circumstances this season has not altered.

September is usually the month of minimum exports. After October there is a steep rise in exports till it reaches a climax during December. After December exports start to fall and this period extends from February to April. In the months of May and July a

VARIETY

- a) Brazilian santoz coffee
- b) Brazilian rios
- c) Brazilian Minas
- d) Brazilian Paranas
- e) Mexicans
- f) Gautiamal i.e. Cobans and Antiguas
- g) Costarica high attitude
- h) Washed cubans; Santo Domingo, Haity and Jamaica
- i) Robusta

POPULAR FEATURES

- sweet, clear flavour
- pungent flavour and aroma
- sweet, clear flavour
- good flavour sweet
- mellow, rich in body of fine acidity
- aromatic cup, fine blenders
- rich in body, fine mild flavour, superior blender
- high cup quality
- very good as soluble coffee blend

small improvement could be seen. Exports during April, June, August and September are relatively low. The coffee year 1983/84 (October 1983 to June 1984 period) seems to have been a peculiar year compared to the normal cyclical pattern. The pattern has changed and could be called a "Three peak year" which is unusual.

The exports of coffee during 1983 upto the months of September had amounted to 694399 kilos. This is an unprecedented feature. When exports of the earlier years is the peak which ought to have occurred in December had not taken place.

Again a small upturn had occurred in February 1984, following a fall in January exports. The other peak was recorded in May 1984 and such a rise in volume of exports in this month seems to be unprecedented.

The best year of coffee export in recent history, seems to be coffee year 1983/84. The highest volume of exports during a single boom period had taken place during the coffee year 1981/82. On the other hand the coffee year 1980/81 had been the worst year and exports throughout the year had fluctuated at very low levels.

Production and Export of Coffee

The following table shows the world production and export of coffee:

The table 3 shows that between 65 percent and 75 percent of the world coffee production has been offered to the world market for trade. The rest has been consumed in the producing countries. The tables 3 and 4 show that the Arabica type of coffee has dominated both world production and

exports. Its production significance had been even increased in the latter years. For instance Arabicas had made 76.4 percent of world production of coffee in the coffee year 1979/80 and its significance had increased to 80 percent in 1981/82. Regarding exports Arabicas had ranged between 73 percent and 78 percent of total exports. According to the same tables Colombia and Brazil together had formed 43.3: 42.3: 48.9 percent of total world coffee production during 1979/80 to 1981/82 respectively, while exports for the same three years from these two countries reached levels of 41.0, 45.9 and 45.1 percent among world exports.

International Market Mechanism in Coffee

In moving green coffee from plantations in producing to consuming countries the transactions

Table 1

MONTHLY EXPORTS OF COFFEE FROM SRI LANKA

	1979		1980		1981		1982		1983		1984	
	Quan. Kg.000	Value Rs.M.	Quan. Rs.000	Value Rs.M.	Quan. Kg.000	Value Rs.M.	Quan. Kg.000	Value Rs.M.	Quan. Kg.000	Value Rs.M.	Quan. Kg.000	Value Rs.M.
January	280.0	9.1	152.2	6.8	106.0	4.2	516.6	17.2	521.8	22.9	369.8	22.2
February	200.1	6.1	95.6	4.2	104.0	3.3	487.9	17.9	298.6	13.7	404.1	30.8
March	165.0	5.3	105.0	4.7	50.6	1.5	248.0	9.0	176.0	8.4	190.0	11.7
April	212.1	7.1	91.2	4.2	79.0	2.4	101.1	3.6	54.0	2.6	245.0	14.8
May	133.4	4.6	170.2	8.1	30.0	1.0	148.0	5.5	76.0	3.7	532.6	32.9
June	335.5	14.6	123.2	5.8	9.0	0.3	116.2	4.8	37.5	1.8	120.9	7.8
July	173.8	5.0	25.2	1.2	5.0	0.2	50.1	1.5	95.3	5.0	265.9	17.0
August	140.5	5.9	11.0	0.5	50.0	1.6	25.0	1.0	44.6	2.7	120.1	7.8
September	62.9	3.1	-	-	35.0	0.9	59.0	2.4	694.3	38.2	335.0	21.3
October	176.6	8.7	0.5	-	261.2	7.7	210.1	7.7	95.1	5.1	258.0	16.4
November	321.0	15.0	30.0	1.0	502.4	15.5	425.2	16.7	437.1	24.5	-	-
December	360.9	16.8	104.5	3.4	805.1	26.3	533.2	22.6	594.1	35.1	-	-

Source : Central Bank Monthly Bulletin

633.73.003.1

RISE AND FALL OF THE EARLY COFFEE ECONOMY OF SRI LANKA

the emergence of the coffee plantation as a largescale commercial crop dates back to the early British period in Sri Lanka's history although some scattered evidence traces it even further back to the mid 18th century. For instance records show that about 100,000 pounds of green coffee had been exported from Sri Lanka in the year 1739. The Dutch who ruled the maritime provinces of the country in the mid 17th century had successfully popularised the plantation of coffee in Galle and Negombo districts.

Diverser opinions exist regarding the original introduction of the shrub to Sri Lanka soil. Some say, the coffee tree is mentioned in early Ayurveda medicinal herbs lexicous, some say that the plant had been brought and planted both in India and in Sri Lanka, by Arab merchants long before the country was beseiged by European powers. Modern literary records indicate however, that the coffee plant was introduced by the Dutch during the late 17th century, simultaneously or a little later than 1690 when they also introduced it to the island of Java.

Nevertheless by the time British captured the Kandyan Kingdom the then monarch of Sri Lanka seems to have owned some coffee lands around his palace at Hanguranketha and more was grown on the banks of the Mahaweli river. It is doubtful whether the Sri Lankan coffee was used as

a beverage at that time. They probably would have used the tender leaves as a curry and the flowers for religious offerings.

Towards the end of the Dutch era the coffee plantations seem to have been neglected, but when the British took over from the Dutch they took a keen interest in reviving its plantation. The plantation economy of Sri Lanka originated and was nurtured with the propergation of the coffee plantations. It may also be regarded a very early step in the direction of the outward looking export-oriented commercial economy of Sri Lanka. The network of roads and transport system and a substantial volume of infrasturcture began to emerge due to the thrust provided by the coffee economy. Many longstanding problems such as the displacement of the peasantry from their lands and alienation of lands had their beginnings here.

A more rapid growth of the coffee plantation occurred after 1810 and by 1826 the country was able to export about 2 million pounds of coffee. By the mid 19th century the area coming under coffee cultivation had amounted to about 85,000 acres. This acreage almost doubled in 15 years from then. The expansion of the area under cultivation went on incessantly until 1878, when the extent under coffee amounted to 275,000 acres. Although coffee faced a set back in mid 1984s, as a result of

over-supply in the world market and duty equalization in the importing countries (especially U.K.) the yield and the volume exported and the income generated kept increasingly steadily till it suffered a fatal blow in the 1880s by the catastrophic coffee blight.

The epidemic known as 'Hamelea Vastatri' had first affected a new plantation in Madulsima. The negligence of the people during the earlier attack of the disease had resulted in its heavy proliferation to a massive level when the entire plantation succumbed and all efforts in eradicating it ended unsuccessfully. While the acreage planted was growing, the yield was dwindling and the agony was not felt in the early stages, as the prices fetched were booming and incomes were buoyant. For instance, compared to 185,000 acres of plantation with 1,013,904 pounds worth of exports; 275,009 acres in 1878 could yield only 631,609 pounds of exports. Income affect concealed the potential disaster.

While the coffee blight could not be restricted, the prospects of the plantation as a source of income grew gloomy. This was the great depression of 1879-1884 period which caused the demand and prices to drop considerably. Subsequent bank failures especially the downfall of the Glasgow Bank of England and Oriental Bank in Sri Lanka which had helped the plantation and trade sector grow now shut all possible financial avenues available for recovery. These disastrous events broke out together.

pass through the same trade channels as in other foreign grown food products. In general coffee goes from planter to trader in the market centre, then to the exporter and through him to an importer in the consumer country. From importer directly or through an agent the consignment passes to a roaster. The roaster brings it to

the final processed position suitable for direct consumption.

The principal world green coffee exchange markets are in New York, Le Harve, Hamburg, London and Antwerp.

Coffee has both a spot market and a future market. In the spot market actual coffee is transacted in street store and warehouse

sales. In the future market no actual commodity transactions take place. This is a process of sale of forward contracts to deliver a certain amount of coffee at a future date. The coffee may be still unripe on trees in the growing countries or be in the custody of stock holders in export countrie or in mid sea on a ship.

Table 2
AREA UNDER COFFEE CULTIVATION IN SRI LANKA 1983
(HECTARES)

District	Existing Total Plantations	Under Estates	New Plantations
Colombo	-	-	40
Gampaha	873	-	93
Kalutara	87	-	30
Galle	300	-	07
Matara	255	9.6	13
Puttalam	40	20.1	10
Kurunegala	1,115	12.9	10
Kegalle	2,054	-	105
Ratnapura	267	31.1	90
Kandy	1,640	478.1	340
Matale	890	136.1	200
Nuwara Eliya	2,520	2.8	100
Badulla	750	-	100
Monaragala	264	-	100
Hambantota	-	-	127
Anuradhapura	1	1.4	-
Total	11,055	-	1,465

Source : Agriculture Ministry Implementation Programme

Behaviour of the farmer is largely determined on the conditions of the latter and are subjected to high speculation.

The principal groups in the roasted coffee trade are wholesale roasters and packers. They include specialty firms, wholesale grocers, chain grocers, supermarkets etc. Some wholesale and chain grocers import coffee direct and among them some have their buying organization or agents in producing countries. The retail coffee distribution in developed consuming countries is done through chain grocers, delivery route dealers, independent retail grocers, department stores and retail coffee stores. Some retailers, particular

the chains, feature their own brands and do their own roasting, other dealers have their own brands roasted and packed for them by trade roasters in addition to selling their own brands.

Table 3
Comparison of World Production and Exports of Coffee
(Metric Tons)

Coffee Year	Production	Exports	Difference	Difference as a % of Production
1979/80	4,806,120	3,678,420	1,127,700	23.5
1980/81	4,812,000	3,747,720	1,064,280	22.1
1981/82	5,701,080	3,729,780	1,971,300	34.6

Source : UN Commodity year book

Market Mechanism in Sri Lanka

Coffee grown in plantations which is a comparatively small proportion of the coffee traded, as seen elsewhere in this study is transacted through Colombo auctions. The bulk of coffee is sold outside the auctions and passes through four to six intermediaries before it comes to the exporter. They are private and small collectors, the village pola which helps to make it available to the town trader and the town trader who sells it to wholesaler who in turn brings the product, finally to the exporter. It should be noted that a certain proportion of coffee grown in plantations is also channelled to the exporter through town traders or wholesalers.

International Trade and Regulative Practices

The international coffee agreement which was signed in 1968 had the following broad objectives in establishing an orderly trade and a non-precipitous price stability :

- 1) Furthering international co-operation between coffee exporting and coffee importing countries providing stabilized prices to consumers and a guaranteed market for coffee at remunerative prices to producers.
- 2) The achievement of economic diversification and development in coffee producing countries.
- 3) Improvement of political and economic relations and promoting co-operation between producers and consumers of coffee.

4) Promotion of the consumption of coffee

5) Establishment of a reasonable balance between demand and supply and avoidance of excessive fluctuation in prices for coffee.

By 1978 the agreement was further extended and virtually all the coffee exporting countries of the world and a fairly high proportion of importing countries acceded to the agreement.

A total of 67 governments became members of the agreement, among them being 43 coffee exporting countries and 24 importing countries. The exporting countries who were participants accounted for about 99 percent of the world production of coffee, while the importing member countries accounted for about 90 percent of the global consumption. The international coffee agreement of 1968 was based on a system of flexible export quotas which were fixed at the beginning of each crop year and adjusted whenever prices moved out of a pre-established range. The effectiveness of such a system depended largely on the willingness of the participants to abide by its rules because the burden of carrying stocks that had resulted from limitation of exports had to be borne by the individual producing countries. Such a system could not function smoothly when only the producing countries backed it. Under this agreement a modest success could be achieved when consumer countries joined with producer countries to monitor the export and import trade system. But this team effort broke down when they refused to agree to a revision of price ranges which was suggested with a view to coping with the world inflation and fluctuation in exchange rates.

According to the article 29 of the agreement (as extended in 1983) the world coffee market has been divided into member quota and non-member non-quota markets.

Table 4

World Production of Coffee (Metric Tons)

	19 79/80	% Total	1980/81	% Total	1981/82	% Total
ARABICAS						
Colombia	762,000	15.9	744,000	15.5	840,000	14.7
Brazil	1,320,000	27.5	1,290,000	26.8	1,950,000	34.2
Other Countries	1,590,240	33.1	1,601,400	33.3	1,774,200	31.1
Sub Total	3,672,240	76.4	3,675,400	75.6	4,564,200	80.0
ROBUSTAS						
Indonesia	301,440	6.3	314,340	6.5	309,720	5.4
Ivory Coast	244,980	5.1	249,960	5.2	312,000	5.5
Uganda	132,000	2.8	450,000	3.1	150,000	2.6
Other Countries	398,040	8.4	394,200	8.2	365,160	6.4
Sub Total	1,076,460	22.6	1,108,320	23.0	1,136,080	19.9
World Total	4,806,120	100.0	4,812,000	100.0	5,701,080	100.0

Source : *UN Commodity year book*

Table 5

**World Exports of Coffee
(Metric Tons)**

	1978/80	% Total	1980/81	% Total	1981/82	% Total
ARABICAS						
Colombia	606,000	16.5	692,520	18.5	630,000	16.9
Brazil	900,000	24.5	990,000	26.4	1,050,000	28.3
Other Countries	1,189,740	32.5	1,239,000	33.1	1,170,960	31.4
Sub Total	2,695,740	73.3	2,921,520	70.0	2,850,960	76.5
ROBUSTAS						
Indonesia	238,440	6.5	292,280	6.5	209,400	5.6
Ivory Coast	234,960	6.4	240,360	6.4	240,000	6.4
Uganda	133,800	3.6	155,400	4.2	108,000	3.0
Other Countries	342,780	9.3	353,040	9.4	321,420	8.4
Sub Total	949,980	25.8	991,080	26.5	878,820	23.5
Total	3,678,420		3,747,720		3,729,780	

Source : *UN Commodity year book*

Member country export and import trade is governed by global quotas which are apportioned among members. Each marketing member country is entitled to given a basic quota. The quotas under the 1983 agreement are effective for two years from 1st October 1984 and before the completion of the validity period the coffee council has reserved the right to set the basic quotas for the remainder of the life of the agreement. A basic quota country is always a major exporter country which has the potential of exporting more than 100,000 bags of coffee weighing 60 kilos each per year. (See table 13).

Some of the exporting members are exempt from basic quotas. They are small exporters exporting less than 100,000 bags per year. These countries, excluding Burundi and Rwanda, are given an export quota corresponding to 4.2 percent of the global annual quota set by the council under the provisions of article 31(table 9). After the basic quotas are decided and divided among nations the quota allocations for each quarter of the year is released by the council for trade. No basic quota country can export anything in excess of the quarterly quota allocated. To operate this scheme smoothly export stamps to the volume of goods so allocated have been issued to the exporting country and the exporters have to affix them on the back of a particular export invoice. No importing country will allow consignments not authenticated by the stamps to be entered into their ports. These stamps also act as certificates of origin.

The quota of 4.2 percent has been distributed among the exporting members listed in annex 2 according to the percentages shown in columns 1 of this annex.

Any exporting members listed in this annex at any time could request the council to establish a basic quota for it. In the event that a basic quota is established of one of these countries the percentage indicated in column 1 of this article shall be decreased proportionally.

Table 6 DETAILS OF COFFEE EXTENTS UNDER PLANTATION SECTOR

Name of Estate	Total Cultivated Hectares	Total Coffee Hectares	Mixed Coffee Hectares
Ambagamuwa			
Hangranoya	79.2	4.0	
Badulla			
Aislaby	18.2	1.4	
Dikeya			
Gallebedde	296.1	2.8	
Dimbula			
Great Western	534.3	4.6	
Salosbags			
Baranagalla	153.3	8.0	
Sotal Oya Group	470.1	5.2	
Nagastanne Group	432.5		58.4
Dumbara			
Rajawella Group	825.3	102.3	
Kalutara			
Culloden	1,067.6	5.2	
Kelani Valley (Awissawella)			
Sumedin	204.05	263.0	
Ehaliyagoda State Plantation			
	365.7	32.4	
Ingoya Generation Estate Rev. Board			
	425.2	21.6	
INDoya (Private)			
	328.2	3.6	
Managala Estate			
	314.7	2.8	
Siriniwasa			
	488.0	6.0	

If there is any prior information (depends on future market) where any supply country is unable to export the allocated quota in full or in part that country will inform the ICO about its inability and that shortfall is re-divided by the ICO among the members. The annex 2 countries also get a position of the shortfall. Annex 2 countries do not have voting power or

any decision making authority and if they have any complaints, grievances or suggestions they can forward them to the ICO through a representative member country they are attached to (for instance Mexico). Among two countries have no ability whatsoever to decide on prices or regulate any part of the trade. The markets are decided by the bigger partners

Kalekokke (Wattegama)

Matale	280.3	30.3	-
Kurunegala			
Galpotewa Udabaddawa	780.0	8.9	-
Narmandy	140.8	4.0	-
Matale			
Hapugahalanda	321.6	-	260.1
Udegiriya	285.6	12.1	-
Yatawatte	524.0	124.0	-
Dikkumbura	31.1	-	6.0
Halgolla	81.3	0.4	-
Deniya (Morawakkorale)			
Kata Hena	10.1	2.0	-
Ratnagaha Group	216.0	7.6	-
Pussellawa			
Nayapane	310.0	20.1	-
Rakwana			
Palamcotta Estate Plantations	349.0	2.0	-
Rangalla			
Duckwari Estate Plantation	538.5	2.3	-
Ratnapura			
Hapugastanne Estate Plantation	914.8	20.2	-

Source : *Fergusons Director, Plantation Section*

and countries like Sri Lanka are now more than price takers and conditions adherers.

Benefits of being an ICA Member

Because of the I.C.A. an orderly trade system has evolved and destructive competition among producers, exporters and consumers has been eliminated to a great extent. The big exporters will not divert their resources to coffee

production in a competitive way because they do not get any benefits by doing so. If their production exceeds the quota the burden has to be borne by them. If these excess supplies find their way into the market they could heavily depress prices.

It may be observed that maintenance of price stability at a high level may be detrimental to consu-

mers and a social diseconomy. World trade trends show that coffee consumption in consuming countries has become inelastic and sluggish in growth although prices have stabilized and consumers could plea their family budgets more realistically as a result.

An assured market under the quota system, even with a global growth, is a health sign for small suppliers like Sri Lanka, giving them an opportunity to grow modestly. The developing countries do not need to have speculate on prices and their investment planning and expansion schemes could be methodically and systematically programmed. Risk and uncertainty are minimized.

It also should be remembered that countries like Sri Lanka coming under annex 2 need not adhere strictly to the quarterly requirements regarding exports and they can expand production considerably till they reach the level for a basic quota. These countries can have a clear view about the export earnings based on their supply potential.

It is clear that the I.C.A. has evolved a certain system of economic political and commercial harmony and understanding; among exporters and importers regarding the production and marketing of coffee.

Sri Lankan Performances as a Coffee Exporter

The exports of coffee (Green) from Sri Lanka during the 10 years ending 1984 (See Table 7) have grown approximately three-fold. The country emerged as a coffee exporter only since 1973. In quantity terms export growth has never been smooth, rather it could be called cyclical: the first cycle starting from 41,700 kilograms exported in 1974 reached its peak in 1976 with exports amounting to 1.7 million kilograms. The subsequent year had resulted in a 42.3 percent drop from the previous year with exports amounting to 985,700 kilograms.

The second cycle too had a short life of three years like the previous one. The peak of the up-

Table 7

EXPORT OF COFFEE BY SRI LANKA 1974 - 1984

Year	Quantity Exported '000	Growth Rate	Value of Exports Rs. ML.	Growth Rate	Average Price per Kg	Quantity Offer at auctions 000 kg	Average Yearly auction Price Rs.	SDR	Quantity Auctioned as a % of total exports
1974	421.7	-	2.1	-	4.98	-	-	-	-
1975	1,254.8	197.0	9.6	357.1	7.65	-	-	-	-
1976	1,708.8	36.2	24.5	155.2	14.33	-	-	-	-
1977	985.7	-42.3	33.2	35.5	33.68	-	-	-	-
1978	2,319.2	135.3	85.2	156.6	36.73	-	-	-	-
1979	2,603.0	12.2	106.3	24.8	40.83	33.6	41.30	2.05	1.03
1980	908.8	-65.1	40.0	-62.4	44.01	36.3	43.36	2.01	4.0
1981	2,036.6	124.2	65.1	62.8	31.96	38.1	30.51	1.34	1.9
1982	2,920.4	43.4	110.0	69.0	37.67	36.2	23.94	1.47	1.2
1983	3,124.4	7.0	163.3	48.5	52.27	66.1	50.56	1.96	2.1
1984 (1516 (1st six month)	1,863.0	-	120.2	-	64.51	-	-	-	-

Source: Central Bank Monthly Bulletin

Table 8

Rupee and SDR Values of Coffee Exports from Sri Lanka

	Rupee Value of Exports Rs.Mn.	SDR Value of Exports SDR M.
1975	9.6	
1976	24.5	
1977	33.2	3.2
1978	85.2	4.4
1979	106.3	5.3
1980	40.0	1.9
1981	65.1	2.9
1982	110.0	4.8
1983	163.3	6.3
1984	120.2	

Source: Central Bank Monthly Bulletin

swing was reached in 1979 with exports of 2.6 million kilos. This time after a high peak the slump was even more severe, and the drop was 65.1 below the previous year's exports.

The recovery in 1981 was less than the earlier recovery. Exports in this recovery year were 2.0 million kilos registering a growth of 124.2 percent, the lowest recovery rate. Nevertheless the cycle has lasted longer. The peak may be even higher than the actual figure of 3.1 million kilos in 1983 and estimated figure of 3.3 million kilos in 1984.

Behaviour of export values contrast with the behaviour of volumes. If this trend is also considered as cyclical, it may be observed that there are relatively longer cycles. Till a drop occurred in 1980 an incessant growth had

taken place in aggregate values, although growth rates varied. During this period there were growth rates ranging from as much as 387 percent to as low as 25 percent. The fluctuations in annual growth rates during the second cycle generated in 1982 has not yet come to an end has not varied as widely as the earlier cycle although the rates have been substantially high.

According to SDR calculations a growth of a more even pattern can be seen. In SDR terms earnings had been growing steadily until 1979 and in the following year there was a severe slump. Thereafter again a growing trend has set in, but only in 1983 the export earnings could overcome the level sustained in 1979.

Observations relating to the export of coffee show that a certain proportion is mediated through Colombo auctions. The volume so dealt comparative to the total exports has been as small as to be largely between 1 percent and 2 percent. The 1980 Colombo auction figure reached a little higher proportion solely because the aggregate exports in this year dropped drastically. What was brought into Colombo auctions are the products of the estate sector. Comparison of export prices and Colombo auction prices show some similarities. The auction prices excluding that year 1979 had been somewhat below the export prices. In 1979 auction price had been above the export prices marginally. (See Table 10)

Although there were signs of recovery in 1981 the value fetched with 2.0 million kilos could hardly be rated satisfactory. Prices of coffee were devily depressed. Export rates in 1982 has exceeded the figure of 1979 but for exports of 2.9 million kilos. This is considered insufficient. During 1983 a peak value of Rs.163.3 million was recorded with improved prices and export volume.

Table 9

EXPORTING MEMBERS SUBJECT TO THE PROVISIONS OF ARTICLE 31

ANNEX 2

Exporting Member	Percentage Share	No. of Votes in addition to basic votes
Total	100.00	44
(a) with OAMCAF		
(b) without OAMCAF	70.62	35
Bolivia	4.65	2
Burundi	-	7
Ghana	2.14	0
Guinea	4.25	2
Haiti	16.99 (16.99)	7
Jamaica	0.74	0
Liberia	5.52	2
Malawi	0.99	0
Nigeria	3.11	0
Panama	2.79	0
Paraguay	4.61	2
Rwanda	-	7
Sierra Leone	9.94	4
Sri Lanka	2.29	0
Thailand	4.44	2
Trinidad & Tobago	1.45	0
Venezuela	3.40	0
Zimbabwe	3.31	0
OAMCAF	29.38	9
Benin	2.24	0
Central African Republic	11.32	4
Congo	1.70	0
Gabon	1.70	0
Togo	12.42	5

Upto the year 1980 favourable prices boosted export values, FOB average price per kilo of coffee was Rs.4.98 during 1974. During the next three years prices approximately doubled.

The growth in value of coffee exports following the year 1981 resulted mainly from the increased volume of exports. Average prices during 1981 and 1982 had been below the levels of 1979 and 1980.

The aggregate value of Rs.163.3 million fetched in 1983 seems to be a result of the positive increase in both prices and volume exported.

In order to get a more realistic picture of proceeds of exports of coffee SDR values of exports are calculated below :

Quota Performances and Allocation Procedure in Sri Lanka

The quota allocated to Sri Lanka under the international coffee agreement for the coffee years 1980/81 - 1983/84 are as follows:

The table shows that Sri Lanka has a long way to go before we reach the levels required for a basic quota. The export performances for the calendar years are compared in the following table with the quotas for the relevant coffee year.

Comparison of above figures show that excluding the year 1981 Sri Lanka has been able to meet the export quotas satisfactorily.

One problem encountered by Sri Lanka is the uncertainty in regard to production of coffee and supply to the export market. This is so because production is in a crop sector where the bulk comes under small holdings and home gardens. See Table 2. Their productivity levels cannot be predicted. The estate sector is very small and not important as a source of supply. See Table 6. Estimates of cultivated areas are rudimentary and not very accurate. On the contrary domestic consumption level is never known.

Official sources stated in discussions that the maximum production level cannot exceed 2,500 tons and there is a very great whelhood that the production fluctuates between 1,500 and 2,000 metric tons. This shows that the present cultivation and output cannot meet even the quota allocated.

MONTHS	1980	1981	1982	1983
January	47.02	31.06	32.64	41.43
February	46.42	31.12	32.14	44.06
March	46.30	35.30	32.76	50.05
April	44.12	32.16	33.40	49.00
May	49.10	35.50	32.00	50.00
June	45.24	29.00	33.44	52.38
July	47.74	27.00	31.62	55.00
August	43.00	27.04	32.34	50.00
September	39.36	26.76	34.32	55.00
October	38.00	28.96	36.50	55.75
November	37.70	28.96	36.50	55.75
December	36.32	30.82	39.80	49.13

Source : Chamber of Commerce

Table 11
Coffee Quota for Sri Lanka 1980/81-1983/84

Coffee Year	Normal Quota	Extra Quota	Total Quota	Metric Ton Equivalent of Total Quota
1980/81	45,000	-	45,000	2,700
1981/82	49,500	-	49,500	2,970
1982/83	54,000	18,000	72,000	4,320
1983/84	54,053	-	54,053	3,243

Source : Ministry of Commerce

The distribution of coffee quotas among exporters is handled by the Ministry of Commerce, which is the official body that receives and operates the country quota. The stamps issued to mark the quota are lodged at Bank of Ceylon which acts as custodian.

The allocation pattern of quota stamps among exporters upto the coffee year 1983/84 was done on the following basis:

- a) 2/3 of the country quota set aside and divided among exporters according their past

Discovered in A.D. 850 coffee plants were originally grown in Kaffa and taken to Southern Arabia where they were cultivated for about five hundred years. Coffee soon became popular among the Arabs and by the time West Europe was in its period of colonial ascendancy in the sixteenth and seventeenth centuries, it was introduced to the Continent as a beverage. Coffee houses became widespread in Europe and America in the seventeenth

century as centres of political, business, social and literary influence. From the reign of Charles II to the early Georges, the London coffee house was the centre of social life (Trevelyan, 1964:60). In Queen Ann's time there were well over five hundred coffee houses and every respectable leader

had his own favourite one. Coffee houses therefore held the place now occupied by the club, although in a more relaxed and cheaper form. Coffee houses became a levelling influence as well as places for the exchange of information. Before journalism and mass-communication coffee houses were centres for exchanging political, military and business news at an informal level. Lloyd, of shipping and insurance fame was a coffee house keeper in Lombard Street and the rise of his business interests later had much to do with the central position occupied by coffee houses.

By becoming centres of fashionable discourse coffee houses created a demand for coffee beans.

To meet it the coffee plant travelled from Saudi Arabia to Sri Lanka in 1658, to Surinam in 1630, to Java in 1696, Martinique in 1723, Brazil in 1727, Jamaica in 1730, Cuba in 1748, Puerto Rico in 1755, Venezuela in 1784, and Mexico in 1790. Therefore with Europe in the ascendant, not only did coffee become fashionable in Europe, but it was now grown in those regions which had come under its way. In addition, coffee drinking as a world wide phenomenon was transmitted to those countries inside the periphery as well as those outside it.

Source: *Crippled Minds, An Exploration into Colonial Culture*. Susantha Goonatilake, 1982. New Delhi

performances. This means that 2/3 was pro-rated to 100 and each exporter was given a proportion of it taking into consideration the export performances of the previous year. This portion of the quota has been named "entitlements".

- b) The balance 1/3 is called the competing quota and kept to be given to new comers on first come first served basis. This division is made to induce the new comers to enter trade and thereby encourage further export, production and expansion of cultivation. If the new - comers were not able to take up these quotas the whole or the balance is redivided among conventional exporters again on the first come first served basis.

One major objective behind the quota performance is to utilize it fully, because quota ex-ante is decided on the export performance. From the coffee year 1984/85 this pattern of allocation has been changed. The other characteristics of the system use to remain the same while the proportion of division between entitlements and "competing" quota has been chang-

MONTHLY EXPORTS OF COFFEE FROM SRI LANKA

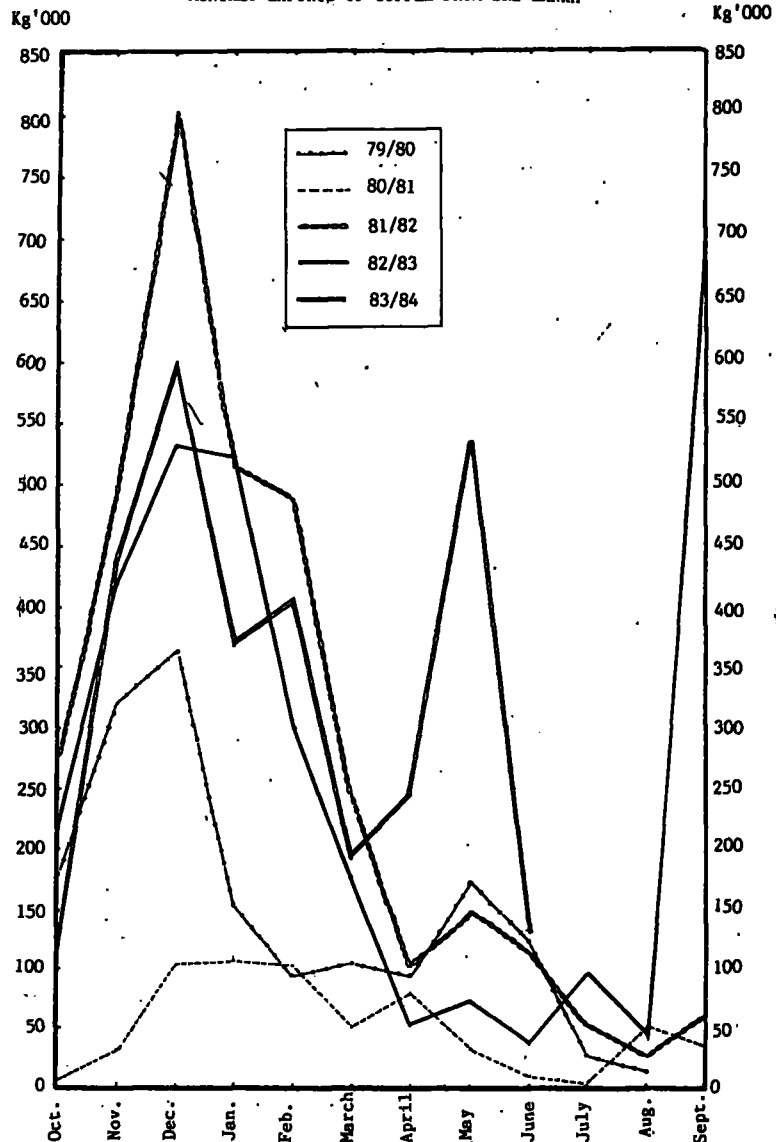


Table 12

Destination of Exports of Coffee from Sri Lanka 1979 - 1983

Country	1979 Value				1980 Value				1981 Value				1982 Value				1983 Value			
	Kg.	%	Rs.	%	Kg.	%	Rs.	%	Kg.	%	Rs.	%	Kg.	%	Rs.	%	Kg.	%	Rs.	%
Australia	2,001	.08	95,219	.09	100,600	11.1	4,765,950	11.9	11,520	.57	326,765	.5	509,640	17.5	24,352,799	18.6	204,440	6.5	9,379,362	5.7
Canada	-	-	84	.00	-	-	-	-	-	-	-	-	-	-	-	-	60,000	1.9	3,450,786	2.1
Maldive Islands	-	-	139	.00	3	.0	368	.0	3	.00	16,571	.02	40	.00	34,536	.03	285	.00	73,351	0.04
Singapore	270,000	10.4	10,820,327	9.7	30,000	3.3	1,044,399	2.6	25,000	1.2	760,357	1.2	35,100	1.2	1,169,198	1.1	-	-	-	-
U.K.	60,000	2.3	2,128,275	2.01	10,011	1.1	472,908	1.18	25,000	1.2	815,010	1.3	178,044	6.1	6,867,768	6.2	30,000	0.96	1,280,423	0.8
Belgium	10,000	.38	492,500	.46	-	-	-	-	60,000	2.9	1,780,896	2.7	20,000	.68	764,850	0.7	30,000	-0.96	1,336,383	0.8
China	100,000	3.8	4,780,812	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Denmark	25,000	.96	807,888	.76	-	-	-	-	10,000	.49	341,793	.52	-	-	-	-	-	-	-	-
France	427,500	16.4	17,068,867	16.1	90,000	9.9	3,967,590	9.9	65,000	3.2	2,165,495	3.3	70,004	.24	2,417,627	2.2	65,000	2.1	2,857,965	1.7
Germany F.R.	1,200,778	46.1	50,068,148	47.1	405,100	44.6	17,722,482	44.3	1,132,542	55.6	35,246,613	54.4	1,037,320	35.5	37,798,768	34.4	988,898	31.7	52,323,232	32.1
Greece	-	-	10	.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	5,000	.19	215,394	.20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Italy	55,000	2.1	2,326,657	2.2	130,000	14.3	5,881,346	14.7	30,000	1.5	990,718	1.5	15,000	.51	653,199	0.6	81,000	2.6	3,820,612	2.3
Japan	10,000	.38	351,299	.33	20,000	2.2	896,937	2.2	-	-	100	.00	-	-	-	-	-	-	-	-
Jordan	10,000	.38	327,483	.31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	30,002	1.2	1,306,424	1.2	30,000	3.3	1,403,893	3.5	302,420	14.8	9,329,171	14.3	274,495	9.4	10,647,883	9.7	495,980	15.9	26,599,158	16.3
Portugal	190,150	7.3	7,061,544	6.6	-	-	-	-	10,000	.49	343,938	.53	-	-	-	-	-	-	-	-
S.Africa	32,880	1.3	1,510,589	1.4	5,000	.55	240,094	0.6	30,000	1.5	1,044,737	1.6	-	-	-	-	-	-	-	-
Switzerland	70,000	2.7	2,819,436	2.7	-	-	-	-	-	-	-	-	25,000	.86	874,608	0.8	-	-	-	-
U.A.R.	-	-	50	.00	-	-	-	-	10,000	.49	414,425	.64	-	-	-	-	-	-	-	-
U.S.A.	93,900	3.6	4,406,469	4.2	30,000	3.3	947,821	2.4	279,941	13.7	9,506,045	14.6	598,041	20.48	22,312,231	20.3	1,041,146	33.3	55,865,382	34.2
Abudhabi	6,651	.25	85,726	.08	2,260	.25	22,399	.06	-	-	-	-	-	-	-	-	-	-	-	-
Dubai	4,118	.16	104,805	.10	2,265	.25	22,453	.07	1,200	.06	11,939	.02	-	-	-	-	-	-	-	-
Bahrein Island	-	-	-	-	-	-	8	.00	-	-	5,063	.007	350	.01	2,874	0.0	-	-	3,851	.00
Hong Kong	-	-	-	-	3,000	.33	142,605	.37	-	-	-	-	-	-	-	-	-	-	-	-
Israel	-	-	-	-	-	-	25	.00	-	-	-	-	-	-	-	-	-	-	-	-
Saudi Arabia	-	-	-	-	320	.06	6,986	.02	-	-	-	-	-	-	-	-	-	-	-	-
Sriya	-	-	-	-	49,993	5.5	2,471,573	6.2	-	-	-	-	-	-	-	-	-	-	-	-
Yugoslavia	-	-	-	-	-	-	113	.00	-	-	-	-	45	.001	2,700	0.0	-	-	-	-
Iraq	-	-	-	-	-	-	-	-	9,000	.44	304,603	.47	8,200	.28	277,917	.25	-	-	-	-
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	118,800	4.1	4,687,200	4.3	75,600	2.4	3,758,400	2.3
Poland	-	-	-	-	-	-	-	-	-	-	-	-	100	.00	-	-	-	-	-	-
Spain	-	-	-	-	-	-	-	-	25,000	1.2	756,502	1.16	30,000	1.0	1,024,155	.93	25,000	0.8	1,116,465	0.7
Sweden	-	-	-	-	-	-	-	-	-	-	-	-	150	.005	5,743	.01	-	-	-	-
Thailand	-	-	-	-	-	-	-	-	-	-	-	-	2	.00	125	.00	-	-	-	-
Turkey	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10	.00	-	-	-	-
U.A.E.	-	-	-	-	-	-	-	-	-	-	-	-	150	.005	5,013	.00	42	.00	1,284	.00
Iran	-	-	-	-	-	-	-	-	10,003	.49	346,146	.53	-	-	-	-	-	-	-	-
Qatit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15	.00	220	.00
Seg Schelle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000	0.1	104,917	0.06
Austria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,000	0.8	1,297,121	0.8
TOTAL	2,602,931	100	106,278,145	100	908,752	100	40,009,950	100	2,036,629	100	65,102,576	100	2,920,381	100	10,005,879	100	3,124,406	100	163,269,475	100

Source: Sri Lanka Customs